U.S. WOOD PRODUCTS COMPETITIVENESS: TIMBER, TAXES, AND TRADE

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES, AND ENERGY

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

AND THE

SUBCOMMITTEE ON CONSERVATION AND FORESTRY

OF THE

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U.S. WOOD PRODUCTS COMPETITIVENESS: TIMBER, TAXES, AND TRADE

SATURDAY, JULY 8, 1989

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES AND ENERGY; COMMITTEE ON SMALL BUSINESS; AND THE U.S. SENATE, SUBCOMMITTEE ON CONSERVATION AND FORESTRY; COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY.

Washington, DC.

Chairman WYDEN. The subcommittees met, pursuant to notice, at 9:35 a.m., in the council chambers of city hall in Portland, OR, Hon. Ron Wyden (chairman of the subcommittee) presiding.

Senator FOWLER. Good morning to you. My name is Wyche Fowler and I am a U.S. Senator from Georgia; your cousin 3,000 miles away. I chair the Subcommittee on Conservation and Forestry of the Committee on the Agriculture, Nutrition, and Forestry of the U.S. Senate.

I am extremely pleased to be back in Oregon. It has been several years since I have been here but I have fished in your waters and hiked in your marvelous forests and enjoyed the natural beauty and hospitality of your citizens, so I was extremely pleased that Congressman Ron Wyden invited my subcommittee to have this hearing on the west coast in your State on issues affecting us all.

We are here to address a wide range of issues affecting the future of our forests in the western United States. Some of these issues, as you know, originate in far away places like Tokyo and Washington, DC, which some still accuse of being a foreign power. The tax treatment of timber international trade issues have a major impact on the management of these magnificent and irreplaceable forests.

Other issues that need addressing have their roots closer to home here in Oregon in the West. The harvesting plans developed by the Forest Service make a huge difference both to the survival of timber and mill industries and to the sustainability of our entire forest resource on which we all depend in many ways.

As with forests in my region of the country and throughout the rest of the country, we are going to have to find a better way to meet our country's need for timber without endangering the other vital resources that our woodlands provide, cleaning our air and our water, maintaining biological diversity, protecting wildlife and fish population, providing sporting and recreational opportunities that are becoming scarcer and scarcer.

Unfortunately, many areas have been planned and managed so poorly in the past that these other needs can no longer be overlooked or counted on to take care of themselves.

The Tax Code Revision of 1986, designed to eliminate unfair tax shelters for many wealthier investors, have had, in my opinion, a disastrous effect on timber producers, especially our smaller, private tree farmers, at a time when the pressures on our forest resources are greater than they have been and we need to be encouraging the best possible management of our woodlands.

Less than 3 years later, after the 1986 Tax Reform changes, the results are pretty plain to see.

We are harvesting more trees than we are planting. If we allow that to continue, that will indeed be a disaster, not just for tree farmers and environmentalists, but for loggers, mill owners, furniture makers, sportsmen, fishermen, anyone who enjoys the natural beauty of America's forests.

Representative Wyden and I have both introduced bills to correct what we consider to be misguided forest policies created by tax reform changes. My bill would restore the capital gains treatment for timber, his would reinstate reasonable passive loss rules for tree farmers that do not lump them together with real estate developers and investment bankers. He will be telling you about that a little bit later.

We are here, and I agreed to this hearing, because I know that there are those who believe that those of us on the east coast and especially in Washington from wherever we come, do not understand many of the unique problems that face people in the West on issues concerning production of timber, the environment, and the protection of our Nation's resource. I have found in many times that that accusation is true.

So we have a panel of witnesses today that will discuss tax changes, will discuss environmental concerns, will discuss many of the trade problems that are here before us and I will, of course, be here to report to my colleagues, make a complete record, and see if we cannot, together, find a consensus of how we can do a better job in what we all agree upon, whether it's westerners or easterners or as Americans, that we can provide the ballast to protect our forests, create our jobs, but also find a way to pass on to future generations the extraordinary benefits that we have had in our generation from our forest resources.

I am very pleased to join my colleague and friend, Ron Wyden. We served many years together in the House of Representatives before I went to the Senate. He is here in his capacity as chairman of the Small Business Subcommittee on Regulation, Business Opportunities, and Energy. I turn it over to our host for any statement he would like to make before we begin.

Chairman WYDEN. Senator, thank you very, very much. What a pleasure it is to have you in my hometown and suffice it to say the chairman of the Senate Forestry Committee could be doing a lot of other things, on a beautiful Saturday, besides sitting in this hearing room and giving my constituents a chance to talk about the unique Oregon perspective on these issues relating to forestry and environmental protection.

I just want you to know that I very much appreciate your being here. I know that you probably had to knock through four or five different airports to make your way to Portland for this hearing, and I just want you to know that I consider it an enormous privilege to have you here—for those in the audience——

Senator FOWLER. Actually our hometown Delta Airlines service has a nonstop from Atlanta to Portland. We invite you all, including yourself, Mr. Wyden, to come at anytime.

Chairman WYDEN [continuing]. I like the sound of those nonstops, I like the sound of that. But for those of you who have not had a chance to hear Senator Fowler discuss forestry and other issues, I think you will know why I respect him so much and I think he is one of the people that I look to in American politics for a creative, informed approach to the difficult issues that we are going to be talking about today and Senator.

Senator FOWLER. Thank you, Ron.

Chairman WYDEN. I just want you to know that I think it is a great favor to have you here today.

We are going to focus today on the three T's of the wood products industry. They are the taxation of private woodlands, trade barriers that limit sales of our finished wood products toward the Pacific Rim, and finally, public timber harvest levels. Together these three issues make a life or death difference for many of the wood product mills in our State.

Just very briefly, I would like to look at the three T's. Although our private woodlands have been increasingly important sources of raw material for the mills, the Federal Tax Code Changes in 1986 killed important incentives for private timber farming. Tax reform of 1986 resulted in the loss of capital gains advantages and it worked a particular hardship on timber growers. In a double whammy, the reform rules also ended normal business expense deductions for the nonindustrial woodlot owner who is really the heart and soul of the tree-farming industry.

It is 50 to 60 years of growing time before a timber farmer can cut trees and make a profit. Until the first mature tree is harvested his money is literally rooted in the ground. During the interim he runs all the risks of fire, pest infestation and other fiber reducing hazards that shadow the timber grower, large and small.

The lower capital gains rate was designed to encourage risky investments such as tree growing. Without these incentives, we have seen the bottom fall out of tree growing real estate in our home State.

A leading conservation group, the 1,000 Friends, has estimated that $200 million has been lost in the value of commercial tree growing property in this State since 1986 alone. That is due to the elimination of the capital gains rate. That is a loss of $10,000 for the average nonindustrial tree farm. By the same token, their tax bills have doubled and possibly quadrupled. It is a catch 22. To pay the bills some have been forced to sell more trees—immature trees that they have to sell at a discount. Timber property values go down, less raw material is available for the mills, we lose our jobs, the whole economy gets hit hard.

The loss of normal expense deductions for small woodlot owners has been the second hammer that our timber industry has re-

ceived. Small woodlot owners have lost the ability to write off expenses as diverse as a gallon of gasoline for a chain saw to the cost of a professional forestry consultant.

Growing trees in Oregon can take from 30 to 100 years depending on species and location. Care of the trees costs an average of $20 per year, per acre. Killing maintenance cost deductions over a period of time is going to have a serious and cumulative effect on our tree growers.

My own view is that these tax changes are going to force a lot of Oregonians out of the tree-growing business. Many other woodlands will be less intensively managed and I think yields are going to decline as a result. In either case, our wood products industry faces yet another long-term loss of desperately needed raw material.

It is no secret to Oregonians in 1989 that a loss of raw material translates directly into a loss of timber jobs and employment in our State.

As Senator Fowler mentioned, both of us have introduced legislation to deal with these issues. The Senator has introduced important legislation to lower the capital gains rate for timber harvest profits. My legislation would give the opportunity for thousands of small woodlot owners in this State and around this country to once again get normal business expense deductions and have some incentives to engage in important environmentally sound practices such as thinning and brush clearing and a wide variety of other practices that are necessary for responsible long-term forest management.

We are also going to talk today about an additional set of issues, the first of which is trade. This has been particularly important because Oregon mills now face a labyrinth of tariff and nontariff barriers that cost hundreds of millions of dollars in lost sales to the Pacific Rim. In Japan alone, unrealized sales to the tune of $1.2 billion per year can be laid at the door of tariff and nontariff barriers.

The Bush administration recently has toughened up. They are citing Japan now as an unfair wood products trader under the Super 301 provisions of the Trade Law. This is our most aggressive market-opening tool and could eventually force retaliatory duties and quotas against Japanese imports.

Now I have been, as most Oregonians, a free trader. I have been against the kind of protectionist measures in the Congress but I was very much in favor of this action taken by the administration because I think our wood products operators now face crippling obstacles against getting our products into the Pacific Rim and this is costing our State real jobs just as surely as a raw log shortage shuts down our mills.

I believe that this 301 filing against Japan serves notice—it is a wake-up call—on our trading partners that our Government is no longer going to stand by and watch raw logs and jobs shipped overseas while the finished products stay home because of export barriers.

The last issue that we are going to be talking about is the question of public timber harvest levels and specifically the logging of old-growth forests. Now I would like to be very clear that today's session is not one to relitigate the concepts that the Oregon con-

gressional delegation and the Governor have pursued particularly through the timber summit discussions that took place last week. I strongly support the efforts of the delegation and the Governor. I believe that the concept is still very sound, and support the effort as we go forward through this session of Congress to build on that concept and try to bring both sides together. Ultimately, there has to be a better way of resolving these conflicts. I believe that the current process of resolving these issues is basically a lawyers' full employment act. I think what happens is both sides just head off to the Federal Court. There has got to be a better way, probably ending up sort of like an old world marriage where we get the two sides together and say, "You are hitched whether you like it or not. Work your arguments out because we need you both."

But I want to emphasize to all, and our witnesses have been very gracious about this, that we are not here to relitigate the Timber Summit, but we are here on the old-growth issue to give an important background discussion to one of the country's leading figures in forestry and to give him a chance to hear the unique Oregon perspective on this old-growth issue. I think we are very, very fortunate to have Senator Fowler who, my sense is, under normal circumstances would be out fishing or hiking or enjoying a beautiful part of our country, and today has given up some of his free time to hear the concerns of Oregonians. Wyche, we just really appreciate it and look forward to the hearing.

[Mr. Wyden's statement may be found in the appendix.]

Mr. FOWLER. Thank you, Congressman Wyden, very much.

Our first panel is on timber taxes. Mr. James Brown, the state forester, from Salem, Ms. Ilene Waldorf, Jerry A. Parsons, Blair Batson, and Mr. William C. Sellery.

Ladies and gentlemen, I will introduce you one-by-one as you speak, and as we wrote to you, I know most of you have testified before, your complete statements will be made a part of the record.

In order to hear from as many people as possible, we do ask that you limit your presentation to 6 minutes. At the end of that you will have a—somebody will hold up a sign and advise you of the time and if you will wind up in the next minute or so after you see the sign, that will give us time for questioning after all the panel have spoken. That will help us out.

Mr. James E. Brown, state forester, Salem, OR.

TESTIMONY OF JAMES E. BROWN, STATE FORESTER, OREGON DEPARTMENT OF FORESTRY, SALEM, OR

Mr. BROWN. Thank you Senator Fowler, Mr. Wyden, for the opportunity to appear before you today. Mr. Jenning asked me to give you an overview of forestry in this State to help provide a context for the balance of your hearing and I will at the end of my remarks make a few comments about the specific subject areas that you are addressing.

Senator Fowler, Oregon, much like your home State of Georgia, which I had the pleasure of living in during the early 1960's for a couple of years and have been able to continue that relationship through my relationship with John Mixon your state forester. Georgia in many ways, is like Oregon. It has rural agriculture and

forestry as its basic economy in the rural areas and in the more developed areas like Portland, of course, is certainly an industrial base.

In this State we have about 60 million acres, total land area, half of which is forest. As a result you might expect that forestry is a very important part of our economy, making up about 38 percent of our total economy.

Oregon communities, again like Georgia, are highly dependent on lumber and wood products particularly in the rural part of the State. Our employment and harvest of timber coincide very well and some of the viewgraphs that I have attached to my testimony will show that when timber harvest is down—lumber and wood harvest is down, lumber and wood employment is down, and hence the total employment in the State is down. We learned a very hard lesson of that fact during the early part of the 1980's when we went through a recession.

Currently there are about 77,000 or 78,000 people employed in the wood products industry in this State. The ownership of Oregon's forest land is very different from your home State of Georgia. In your State forest land is primarily owned by private individuals or industrial corporations whereas in this State 58 percent of our forest land is owned by the Federal Government; either the U.S. Forest Service or the Bureau of Land Management.

With that type of a land ownership, the policies of the Federal Government have a dramatic impact on timber supply in this State as well as the other amenities that come off the forest.

In Oregon, during the last 40 or 50 years, most of the timber harvest in this State has occurred on private forest lands. They have really helped meet this Nation's needs. Maybe perhaps a background statement. There is as much standing saw timber volume in this State as there is in the 13 southern States combined—to give you just a kind of a feel for the magnitude of the situation that we are dealing with here.

Because of the harvest of timber coming mostly from private forest lands during the last 40 or 50 years, most of the merchantable timber that is available today is on Federal lands. There is a viewgraph in my testimony that will illustrate that for you.

As a result, if there is a decline in timber supply off of the public forest lands in this State, then there will be a total decline in the available timber supply during the next 20 to 30 years.

We believe, based on the studies that the department has done in conjunction with Oregon State University, that on a long-term basis, we can probably sustain a timber harvest of about 7.5 to 8 billion board feet per year. However, Federal land management policies could have a fairly significant impact on the amount of volume available.

As you are well aware, coming from the great State of Georgia, a forestry State, the management of forest land is highly dependent on how much land you actually allocate for timber production. If that land base allocation is decreased through set-asides of one sort or another, then your timber production is going to go down. In a limited way you can offset that decline by increased management such as tree planting or precommercial thinning or fertilization, fire control, insect and disease control. However, the land base is

the key factor. As you will hear a little later today, there is a significant debate going on in this State. That debate as it relates to Federal lands really revolves around how should our national forests be used. I will give you a couple of quotes that will kind of illustrate it. The first quote comes from an introduction to Gifford Pinchot's book "Breaking New Ground" and it was written by George Frampton, the president of the Wilderness Society. In that introduction he wrote the following statement:

> A very different vision has begun to be articulated for their, that is, the national forest management philosophy. This vision holds that public forests ought to be managed primarily to provide those public benefits from private land that that private land is never going to provide for in a market economy—recreation, clean water, biological diversity, scientific study, protection of fragile natural ecosystems, and the preservation of wilderness.

Now, in contrast, the forest industry wants to see a stable timber supply while protecting other resource values. I think the key question that you and I have to answer for both Oregon and the Nation is what does the public want from our forests. There have been a number of public opinion polls both nationally and in Oregon that have shown that the public wants both. They want both jobs and they want a quality environment. So I think our key policy question is how do we deliver on both these values.

The issue being faced today with respect to national forests is, will they provide both commodity and noncommodity goods and if they will, what is the balance—what is the appropriate balance. That balance will be decided through land allocation and the management practices that are applied to the land.

Now my thesis, as you might expect, is that through good forest management we can provide both commodities and a quality environment for Oregonians and this Nation. Now to achieve that balance, the State of Oregon under the leadership of Governor Goldschmidt, is evaluating and commenting on each national forest environmental impact statement and then we are going back and constructing our own State alternative for each national forest plan. In order to achieve that magic balance of providing both jobs and a quality environment, we are getting out on the ground, visiting with the people in the local area, talking with the Forest Service, and the different interest groups.

While public land management policies are extremely important to Oregon, we are also concerned about private forest land management. Private forest lands constitute 37 percent of Oregon forest land and 21 percent is owned by the nonindustrial private landowners. For nonindustrial private, much like in your home State, lack of cash flow is a principal reason for lack of management of this land. Loss of capital gains and the passive loss rule are seen by many owners as a key disincentive to management and both provisions reduce cash flow and thus the landowners ability to invest in the land. It is my opinion that capital gains should be reinstated and the passive loss rule should be repealed.

Other productivity enhancements that Congress should consider include reauthorization of the 1990 Farm Act, specifically the Agriculture Conservation Program; fully fund the Forestry Incentives Program; and funding the new Stewardship Program that is being

recommended by the National Association of State Foresters. John Mixon, I am sure, has talked to you about that new program.

All these programs are aimed at improving landowner cashflow for making significant investments in forestry. Technical assistance and extension education are also key parts. These investments will not only provide timber but they will also provide clean water, reduce soil erosion, and provide fish and wildlife habitat. Thank you.

[Mr. Brown's statement may be found in the appendix.]

Senator FOWLER. Thank you, Mr. Brown, very much.

Ms. Ilene Waldorf, a nonindustrial woodlot owner from Molalla, OR. Where is Molalla?

Ms. WALDORF. It is about 50 miles southeast of Portland.

Senator FOWLER. Good; glad I said it right. Welcome, Ms. Waldorf.

Ms. WALDORF. Thank you.

TESTIMONY OF ILENE L. WALDORF, LICENSED TAX CONSULTANT, MOLALLA, OR

Ms. WALDORF. Senator Fowler, Representative Wyden, thank you for inviting me to share my views regarding the effect of Federal tax policy on private woodlot productivity. The loss of the capital gain exclusion and the potential inability to deduct annual operating expenses were a devastating blow to the Nation's tree farmers.

I am a self-employed accountant in Molalla, OR, and have been involved in the timber industry all my life. My parents bought their first cut-over land in 1951 and, through much dedication and hard work, have developed a well-managed, beautiful tree farm. I live on our tree farm and would like to some day take over the management of the property I have grown to love. However, due to ever increasing rules, regulations, and tax burdens, it is difficult to see any economic sense in continuing to raise timber.

The 20,000 small woodland owners of Oregon own and manage approximately 18 percent or 4.5 million acres of the commercial forest land of Oregon. These owners are a significant, yet often overlooked, force in the socio-economic fabric of the State. Small woodland owners nationally produce 60 percent of the timber for our lumber and paper products needs.

It would be much easier if these people and their lands fell into a neat and tidy package which could be easily described. Instead, they range in age from early 20's to late 90's, with careers ranging from full-time professionals who farm their lands on a part-time basis to full-time tree farmers. The land they farm ranges from newly planted seedlings to beautiful stands of mature timber.

The things these people do have in common are a love of the land and the trees they are raising, and the dedication it takes to work your fingers to the bone knowing full well you may never live to see the day when the trees you are planting will be harvested.

The Tax Reform Act of 1986 did little to simplify the lives of small woodland owners. In fact, it only served to remove any remaining economic incentive for practicing sound forestry.

The elimination of the 60 percent exclusion for capital gains income increased the tax burden on small woodland owners by

amounts ranging from 86 to 179 percent. I have attached several case studies which will illustrate that very tax increase.

It is very difficult to absorb tax increases like these when the price of timber has not increased accordingly, nor have the expenses to raise and harvest timber decreased.

If we are to harvest timber, we must pay 40 to 50 percent of our gross harvest income to the logger to deliver our logs to a market. In addition, severance taxes will take another 6½ percent. Add to these costs the property taxes, interest, and other normal yearly expenses such as fire, brush, and insect control, road upkeep and animal damage; then take an additional 28 to 33 percent for Federal income taxes, plus 9 percent for the State of Oregon income tax, and what do you have left?

I have assumed here that raising timber is a sure bet. Growing trees is a risky, long-term business. When a tree farmer plants a seedling there is no way to know whether that tree will be destroyed by fire, disease, or competing vegetation and wildlife.

Our Government must have realized the complexities of practicing forestry, the risks involved and the need to provide economic incentives when in 1944 tax laws were passed in the form of capital gain treatment for timber. Now, over 40 years later, when many tree farmers are about to realize an income, possibly a sustained yield, from their previously cut-over lands, the promise to tax timber fairly has been broken.

As if to add insult to injury, Congress also passed the Passive Activity Loss Rules which provide that a small woodland owner cannot deduct his annual costs of managing his timberland unless he can prove that he materially participates in the operation of his tree farm.

As I mentioned before, many small woodland owners operate their tree farms on a part-time basis while holding down other full-time jobs. In many cases, it is essential to hire outside help to do much of the work, such as planting, brush control, harvesting, et cetera. There may be years when the hours of personal time spent on the tree farm will far exceed the required 500 hours, but there may be many other years when a tree farmer will be hard pressed to show 100 hours of participation, and it is entirely possible that employees or subcontractors will have worked more hours on the farm than the small woodland owner.

It is important to remember that even though income from the tree farm is periodic, effective management dictates annual cash investments. It seems ridiculous to expect a tree farmer to invest 499 hours of personal time and thousands of dollars in annual management expenses and yet not allow him to use those expenses to offset the very income—whether it be W–2, interest, or nonpassive activity income—which generated the cash used to pay the tree farm management costs.

Many dedicated tree farmers are extremely discouraged. They feel that without a capital gain exclusion and with ever-increasing stipulations on the deductibility of their expenses, there is little incentive to continue raising timber. It is important to realize that oftentimes tree farmers have borrowed money to finance their operation and although the tax laws have made tree farming inequitable, the obligations have not disappeared. It has become increas-

ingly difficult to sell timberland with stricter land use and zoning regulations, and, let's face it, the value of any asset reflects expected future cash flows. Who in their right mind would want to become a small, nonindustrial timberland owner in the present tax environment?

It is much too soon to tell exactly what will happen to our private timberlands, but it is expected that investments will flow out of the forests and into other, shorter-term opportunities. Those who do hold onto their timberland may choose to practice accidental forestry with a minimum amount of time and money spent on managing their timber. More immature timber will need to be cut to pay ever increasing income taxes. These lands are not ready to cut. They were generated in the 50's and 60's and need another 15 years to reach maturity. A 30-year-old tree will double in volume in 7 to 10 years. A 40-year-old tree will double again in volume in another 10 years and, because of the higher quality of wood, will also double in value. Sadly, as more of the older, existing small woodland owners leave their tree farms there will be fewer young people to take their places.

It seems we have gone back in time to the early 1900's when our timber was rapidly depleted and tree farming and sustained yield were brand new ideas. The people of the United States must decide who they want to own the Nation's timberlands. I will guarantee that the small nonindustrial timberland owner will take more interest in his land and do a better job of managing his timber, if given the chance, than will a large absentee landowner.

You asked whether the Federal Government should undertake other productivity enhancement programs to insure sufficient timber volumes from private lands; please leave us alone so we can manage our timberlands effectively. We are already overregulated, overworked, and overtaxed. Forestland decisions must be made by those of us who are knowledgeable timberland managers, not by lawyers and politicians.

Recovery of a fair tax system for long-term forest investments is the highest priority issue of small woodland owners. We need to be returned to the system under which our lands were originally planted and we need to be given a guarantee that the system will not be changed each time Congress needs more revenue.

We are aware that there is much talk of redoing the method by which estates are taxed. If you raise the estate tax on timberlands, what do you suppose will happen? More immature timber will be cut to pay the inheritance tax. The land may be planted back to trees but will there be money or enthusiasm left over at that point to properly manage the trees as they grow?

We need stability. We need a renewed commitment from Government that the rules of the game will not be changed at every turn of the road. In exchange, we will continue to produce beautiful, productive timberlands which will serve to benefit all. Thank you.

[Ms. Waldorf's statement may be found in the appendix.]

Senator FOWLER. Ms. Waldorf, thank you for your testimony. Just to show you that I am paying attention, I must—and since I am a sponsor as is Congressman Wyden of restoring the capital gains treatment and the passive loss rules—I must, however, point out the irony of your attack on the Federal Government, saying

stay out of your business, please leave us alone, go away, we are already overregulated and overworked, and yet you are sitting here asking the Federal Government to give you preferential treatment to capital gains.

We have got to find a way to cooperate in the policies and not ask with one hand for preferential treatment from Government programs and subsidies through the tax code and at the same time attack the Government and say the Government is the problem.

I take my poetic license as chairman just to point out to you that that is one of the problems that we have now—is people see the Government as a friend or an ally depending on how much they get from it and not in the cooperative effort to work out the best policy so that we will produce more trees.

Certainly I will allow you to respond.

Ms. WALDORF. We do not view the capital gain exclusion as preferential treatment; we view it as fair treatment. What was unfair about the Tax Reform Act was that it pulled the rug out from underneath people after they had invested for a period of 40-plus years, and changed the ball game and we had no way of getting out of that ball game.

Senator FOWLER. I agree with that.

Ms. WALDORF. When I am saying please leave us alone, I am talking about all of the regulations. We have no prob'em with ecological type of management plans and working with you, we just do not feel that we need any other incentive programs. It would be much easier for us to develop our own incentives if we just had a continuing set of rules that were to remain consistent.

Senator FOWLER. I appreciate that, but since you are a licensed tax consultant, I want the message to go loud and clear. The capital gains treatment is a public subsidy; it is a grant to individuals through the Tax Code which every American participates in paying for. We do it for good economic reasons and certainly planting more trees and having more trees is one of the Nation's highest priorities, in my opinion, but as a licensed tax consultant, there are two ways to spend money. I can give you a grant, you get the money. I can give it to you through the Tax Code; you also get the money at the end of the year through your deductions. But both of it is a drain on the U.S. Treasury and that is why we have the deficits that we have. Thank you for letting me respond.

Ms. WALDORF. We could talk all day I imagine.

Senator FOWLER. I will let you come back and try—we will be here a long, long time. We all have your testimony. I have read a substantial amount of it; I must hold you to the 6 minutes.

Mr. Jerry Parsons, executive vice president of Willamette Industries in Portland. Welcome.

TESTIMONY OF DON McNEILL, TAX MANAGER, WILLAMETTE INDUSTRIES, INC., PORTLAND, OR

Mr. MCNEILL. Good morning. My name is Don McNeill and I am the tax manager of Willamette, filling in for Mr. Parsons who is not here today.

Willamette is headquartered here in Portland and I appreciate this opportunity to present testimony on tax issues of great impor-

tance to the forest products industry. Mr. Chairman, Willamette is a large, fully integrated forest products company with 70 facilities in 17 States. We own 680,000 acres of timberland and control through long-term leases another 320,000 acres. These timberlands are managed on a sustained yield basis and will provide about 43 percent of our wood requirements, with the balance coming from various governmental agencies and small nonindustrial landowners.

In light of the recent pressures on allowable harvest levels from our public forests, it appears more dependence will have to be placed on private lands for this Nation's timber needs in the future.

The forest products industry is fully integrated, with strong interdependence between the timber growers and thousands of converting facilities throughout the United States. This interdependence provides a common interest in tax incentives to encourage the long-term investment in growing timber.

In that regard, I would like to take this opportunity to discuss two areas of great importance to a forest landowner. First, the need to reestablish a significant capital gains rate differential for timber income; and second, that corporations, as well as individuals, be allowed to benefit from a capital gains rate differential.

We are greatly encouraged by the recent initiative of President Bush who has called for reinstating the capital gains differential. It is a positive first step in reestablishing a vitally needed economic stimulus to long-term investment. However, we think it is critical that its application be extended to timber and to all forms of ownership.

Under the Bush proposal, timber as a section 1231 asset used in a trade or business, would not qualify for capital gains treatment. Logical economic reasoning, as well as fairness, demonstrates that timber be allowed to qualify as an asset eligible for capital gains.

We believe there is a direct correlation between the tax rate and the willingness to make long-term investments. The lower the rate, the greater the incentive for investors to make these necessary long-term investments.

A substantial capital gains rate differential provides this incentive for long-term timber growing investments, and is critical to attracting sufficient capital to insure this Nation's long-term timber supply. The Tax Reform Act of 1986 eliminated the existing rate differential for capital gains. While the lowered rates of Tax Reform have proved beneficial, the loss of a capital gains rate differential could have a negative impact on the long-term timber supply of this Nation.

The growing and management of timber is a unique economic enterprise. It takes 40 to 75 years to grow timber used to manufacture lumber and plywood, and 20 to 30 years to grow timber used for pulpwood.

The risks are high and, for the most part, are totally uninsurable. For these reasons Congress long ago saw the need to provide the tax incentive to invest in the long-term proposition of growing timber. It is time now to recognize again that a capital gains rate differential for timber is a fair and equitable way to recognize those risks. Such a differential will stimulate a flow of capital to

timber-growing investments, helping to insure a long-term supply of wood.

If the capital gains incentive is not reinstated for timber, many dollars will be attracted to other investment opportunities with less risk and a shorter duration.

President Bush's capital gains proposal leaves out corporations—a glaring inequity which should be corrected in any legislation. It is important that capital gains be available to corporations as well as individuals. Equity, as well as sound tax policy, dictates that similar assets should be taxed essentially the same, irrespective of the form of ownership.

For example, under current law, an individual is taxed at a 28 percent rate on income from an asset owned directly, but at a 52.5 percent rate on the same income realized by a corporation and paid to the taxpayer as a dividend. Under the Bush proposal, an individual will incur 3.5 times more tax on a corporate-owned asset than on the same asset owned directly.

This would be illogical and an unwarranted expansion of the existing tax distortion, based solely on the form of doing business.

Some of the basic objectives of establishing a significant capital gains rate differential are to stimulate long-term economic growth, create jobs, and enhance our international competitiveness relative to other major industrialized countries. For those objectives to be achieved, a revitalization of America's basic productive capacity is required. A capital gains incentive can help that, and corporate America should be included in that effort.

The current temporary regulations defining material participation by the nonindustrial private landowner are not satisfactory to insure the continued long-term supply needed from those lands. I hope you will be successful in your efforts to correct this situation also.

Mr. Chairman, in view of the Bush proposal and recent developments concerning this important issue, I believe it both appropriate and necessary to thank both Representative Wyden and Senator Fowler at this time for their public support and effort on behalf of the timber growers to reestablish capital gains.

We at Willamette greatly appreciate your personal initiatives in this area and are grateful for your leadership, both in the House and in the Senate, supporting fair taxation for all timber growers. This joint hearing is a significant example of your commitment to the economic health of all timber growers and we thank you.

I would be happy to respond to questions at your convenience.

[Mr. McNeill's statement may be found in the appendix.]

Senator FOWLER. Thank you very much, Mr. NcNeill. Forgive me for not realizing you were substituting for Mr. Parsons. Thank you for your testimony.

Next we have Blair Batson on behalf of 1,000 Friends of Oregon from Portland. Welcome, Ms. Batson.

TESTIMONY OF BLAIR BATSON, 1,000 FRIENDS OF OREGON, PORTLAND, OR

Ms. BATSON. Good morning. My name is Blair Batson. I am a staff attorney with 1,000 Friends of Oregon. This hearing was origi-

nally slated to discuss the effect of changes made in the Tax Reform Act of 1986 on timber investments in Oregon and the rest of the Pacific Northwest. We were specifically invited to discuss the effect of the passive activity regulations. This week the hearing has been opened up to include issues of Oregon's reduction in timber supply. Although I am on the timber tax panel, I would like to take a moment to discuss an issue that I think is very important in the overall picture.

One Thousand Friends believes that a major component missing from the debate surrounding the reduction of timber harvest on Federal lands is the potential to make up some of that difference by increasing the productivity of nonindustrial private forest lands in Oregon. Specifically, the 2.2 million acres of nonindustrial private forest land in Western Oregon. The Beuter report, which was released by Oregon State University in 1976, estimated that NIPF harvest could be increased to 1 to 1.4 billion board feet. That would put a significant dent in the timber supply shortage now faced by the State of Oregon.

To do that, however, it is critical that NIPF lands be properly managed. They must be adequately stocked, harvested, and appropriately and promptly reforested. For NIPF land owners to properly manage their lands for maximum production, they need favorable policy mechanisms in place. First, they need a stable and supportive land use policy; second, they need a stable and supportive tax structure. Although this hearing is focused on the latter, I would like to take a moment to discuss the former.

At this very critical time in Oregon's history, when the issue of timber supply reductions are in the forefront, the Oregon Land Conservation Development Commission [LCDC], is stepping backwards in its policy to protect the State's private forest lands. At this time it is proposing to open up potentially millions of acres of productive private forest lands, including many large parcels with site class 3 or better, for the development of 20-acre home sites.

Lane County, in particular, is on record as wanting to open up some 60,000 acres of such land for rural residences. The greater irony is that this land, which LCDC is considering removing from timber production, is more productive than Federal lands which the State is attempting to include in its timber supply. For example, the State is asking why management is not being purposed on 135,000 acres of low site class 4 and high site class 5 lands that the Willamette National Forest staff says cannot be regenerated.

Without taking sides on that issue, we want to point out that right across the boundary line separating the Willamette National Forest from Lane County, LCDC is considering opening up tens of thousands of acres of large parcel NIPF land class 2 or better to new 20-acre home sites.

We believe that Oregon's claims of a timber shortage sound rather hollow when it is proposing to relegate NIPF lands to rural residential development.

Enough of the timber supply problem and on to the tax issue. We recognize that land use policies alone cannot do the job of encouraging production on private forest lands. There must also be a beneficial tax structure in place. Recognizing the importance of favorable tax treatment to forest investment in Oregon, and the effect of

removing that treatment from the Federal tax laws in 1986, 1,000 Friends joined with Oregon, California, Washington, and national woodland owner groups to ask the Federal courts to enjoin the IRS from adopting the proposed passive activity regulations that would prevent many NIPF-landowners from deducting forest management expenses against ordinary income.

These regulations can be a serious disincentive to making the kinds of forestry investments we think the State needs. The basis of our lawsuit is our position that the National Environmental Policy Act [NEPA], requires the IRS to prepare an environmental impact statement before adopting these regulations. It takes from 40 to 100 years to grow a tree and realize the revenue in the Pacific Northwest. If landowners cannot offset their annual management expenses from ordinary income, but must capitalize these expenditures year-to-year, they may not be able to make such investments and, therefore, choose some other more immediately profitable investment.

This increases pressure to change forest land into other uses or at least diminish the quality of management on these lands. Our position is that either of these options could have significant environmental impact as well as the economic impact that has been discussed here earlier.

Specifically, the reason we find that this is a problem is that the material participation requirements of the 1986 Tax Reform Act, as interpreted in the passive activity regulations promulgated by the IRS, require that to establish materiality, the taxpayer must show he devotes either: First, 500 hours annually to the investment; second, at least 100 hours to the investment and more time than any other individual; third, substantially all the time required by the activity.

Our studies, and testimony from numerous NIPF owners in Oregon and other States, establishes that most NIPF owners simply cannot meet these requirements. As the affadavits I have submitted into the record indicate, that is not the way they manage their forest land.

In conclusion, I would like to state that there are approximately 25,000 NIPF land owners in Oregon. Collectively they own 3.5 million acres or about 18 percent of the State's commercial forest land base. With reductions in harvest on Federal and industrial lands imminent, it makes sense to increase, not decrease, forest land productivity. History has shown that decreased productivity is the inevitable result of removing tax incentives to grow trees on private lands. It should, therefore, be apparent that Oregon cannot afford the environmental and economic costs of such result at this time in its history. Thank you.

Senator FOWLER. Thank you very much, Ms. Batson.

Mr. William C. Sellery, Jr., the executive director of the Forest Industries Committee on Timber Valuation and Taxation, Washington, DC. Welcome, Mr. Sellery.

TESTIMONY OF WILLIAM C. SELLERY, JR., EXECUTIVE DIRECTOR, FOREST INDUSTRIES COMMITTEE ON TIMBER VALUATION AND TAXATION, WASHINGTON, DC

Mr. SELLERY. Thank you, Mr. Chairman. I appreciate being here. I have been busy carving out major portions of this testimony to keep it nice and brief so I will try to get through this very quickly.

My name is Bill Sellery. I am the executive director of the Forest Industries Committee on Timber Valuation and Taxation [FICTVT], a nationwide organization of landowners, whose members are interested in tax laws which will foster and protect the ownership of timberland, and encourage the growing, harvesting, and regeneration of trees.

I am also tax advisor to the National Forest Products Association, a trade association which represents the interest of wood products manufacturers.

I appreciate the opportunity to address this joint field hearing, and present views on tax issues of great importance to timber growers all across America.

Mr. Chairman, the FICTVT is made up of thousands of timberland owners from every State in the union, ranging in size from the largest most fully-integrated forest products manufacturing companies, to literally thousands of individual, private, nonindustrial landowners. Our common bonds are the tax laws which have such a dramatic effect on the forest economy. Perhaps no other single activity of the Federal Government so directly affects the economic wellbeing of the overall forest products economy than decisions relating to the Internal Revenue Code. The National Forest Products Association together with a multitude of other forest-related organizations, joins the FICTVT in support of fair timber tax laws for tree growers.

Mr. Chairman, the very diversity of the membership of my organization has provided me with a unique perspective regarding the impact of tax laws on the nature of growing, harvesting, and regenerating trees. Although the lower rates have proved beneficial, I can tell you that there is an immense sense of frustration among landowners and tree growers everywhere as they see their own taxes rise to the point where now it makes little, if any, economic sense to plant and professionally manage timberland. This needs to be changed and we hope we can enlist your support in this cause.

At this point in time, there seem to be three major issues of great interest to timber growers: First, we strongly support reestablishing a significant capital gains rate differential in a manner consistent with its application prior to its repeal in 1986, including allowing timber to be property eligible for capital gains, and to include both individuals and corporations as owners eligible for capital gains.

Second, we support appropriate modifications to material participation tests, with respect to timber growing activities, currently contained in the proposed and temporary IRS Passive Loss regulations.

Third, Mr. Chairman, we urge you to resist any attempts to impose greater estate taxes on tree growers, which in many cases,

can cause the forced breakup of many family-owned timber businesses.

Mr. Chairman, with your permission, I would like to briefly address each of these important issues.

A significant capital gains differential is an economically sound method of providing fair taxation of timber income. Timber growing requires heavy front-end expenditures, long-term carrying charges, high risks of weather, disease, insects, and fire—all uninsurable. Rates of return are historically low compared to alternative investments, with capital literally locked in the ground during the growing cycle. Timber does not enjoy the easy market liquidity of other assets, as trees cannot be economically harvested before maturity.

The capital gains provision of the Tax Code proved to be an effective mechanism for increased production and improved forest management. Since its enactment in 1944, capital gains treatment for timber sales resulted in impressive gains in planting and productivity. Today, in spite of increased harvests to meet consumer needs there is actually more growing stock than in 1944. Capital gains played an important role in establishing that fact.

However, for every year that there is inadequate reforestation and less effective timber management due to unfair tax policy, that year's lost planting is lost forever. A tree simply cannot be planted retroactively. However, there are a multitude of benefits provided to society by sound forest management practices—practices enhanced by a climate of fair taxation as owners manage for optimum productivity. These practices serve to significantly enhance the overall environmental quality of our forests and surrounding communities. Our professionally managed forests provide vital wildlife enhancement, water quality, a hedge for soil erosion, provide for recreational needs, and create aesthetic beauty. In fact, we are now learning more fully the critical role being played by reforestation in the effort to combat the so-called greenhouse effect, while at the same time the land is growing trees for the future supply of wood.

Reinstating a significant capital gains differential, and reestablishing its application to timber for both individuals and corporations is essential if timber growers are to meet future raw material demands for the thousands of consumer products dependent on wood and fiber.

Mr. Chairman, let me turn to the second critical issue to all timber growers, that is passive losses and the definition of material participation.

The demonstrated record of accomplishment in the timber-growing business is threatened by the generic application of proposed regulations dealing with the treatment of passive losses.

The proposed regulations do not accurately reflect the legitimate problems associated with the unique nature of timber-growing business. As currently drafted, these proposed regulations would likely diminish our timber supply by encouraging premature timber harvest and stifling investment in forest renewal. The result of this approach, unless modified significantly, would lead to smaller supplies of timber, economic disruption in the timber-growing industry and ultimately higher prices for timber products.

Timber growing is a lengthy process. During this lengthy growing period, timber growing by its nature requires varying levels of activity on the part of a timber grower. Sound forest management practices will require that much activity be performed in some years during the growing cycle and only a little or no activity in other years. Due to this unique situation, we believe it is inappropriate to require, as the proposed regulations do, that a timber owner spend a prescribed minimum number of hours during each taxable year in order to be treated as materially participating in his timber growing activity.

Further, it is necessary for many timber owners who actively engage in management of their forest property to seek the advice of forestry consultants and for virtually all timber owners to obtain assistance in carrying out some of the physical work of their woodland. As currently drafted, however, the regulations would preclude many timber owners from materially participating if they use such consultants or agents to any significant extent. In that regard, we strongly supported the initiative of Congressman Ron Wyden together with his colleagues on the Forestry 2000 Task Force in the House of Representatives when they introduced H.R. 1086, the Farmers and Woodland Owners Tax Simplification Act of 1989.

The bill would clarify the real intent of Congress in this area by legitimately and legislatively changing the definition of material participation. We appreciate his leadership in this area very much, it has been a big help to us.

Finally, Mr. Chairman, I would like to mention one area of growing importance to timber owners and that is in the area of State taxation. Timber owners and landowners all across America have united in an effort to preserve and encourage the continuity of American family businesses, such as, tree farming, and oppose the imposition of punitive and confiscatory estate and gift taxes that would destroy such concerns.

The FICTVT, together with a vast number of other forest organizations, opposes these proposals as detrimental to the fundamental building block of America's small businesses. We urge that all attempts to increase the current estate tax burden be resisted.

In conclusion, Mr. Chairman, Federal tax laws play a major role in the economic considerations of growing, harvesting and regenerating trees. It is critical to the future of all landowners all across America, and to the future supply of wood and fiber, that fairness and equity be the real test of timber taxation.

We urge the congressional committees represented by this joint hearing to actively participate in establishing and promoting fair and equitable taxation for timber growers everywhere.

Mr. Chairman, that concludes my oral statement but if you would indulge me for just a moment, I would like to take this opportunity to publicly thank both you and Congressman Wyden for the personal initiative you have both demonstrated in helping to improve the economic environment for timber growers all across America. Both of you recognize the current difficulties facing landowners and both of you have moved quickly to provide appropriate relief and help. Senator Fowler, you have mentioned that you recently introduced a bill that would provide significantly beneficial,

15 percent capital gains rate for timber, which would include individuals and corporations and we appreciate what that represents, Senator, and we appreciate your leadership for forestry. Congressman Wyden, you have just completed the first of a rotating 6 months term as chairman of the Forestry 2000 Task Force, and in that capacity, in that role, you were instrumental in leading the charge among the Forestry 2000 Task Force and others in the House by introducing H.R. 1086, which would change the definition of material participation as it applies to timber growers. I just wanted to say outside of my prepared remarks, that I appreciate the leadership and the personal interest that you have exercised on behalf of timber growers everywhere, and we appreciate it very much and look forward to working with you in the future.

[Mr. Sellery's statement may be found in the appendix.]

Senator FOWLER. Thank you very much, Mr. Sellery.

Thanks to all the panel, the thoroughness of your testimony. Congressman Wyden will have some questions.

Chairman WYDEN. Thank you. Thank you, Senator. Bill, thank you for those kind words. We probably ought to quit while we are ahead. We really appreciate it and, frankly, let me thank all of the panel members for your very excellent presentation. I will tell you that I think this is a particularly important panel because as we deal with the spotted owl issue and the old-growth issue, any effort to come up with a responsible solution is going to put more pressure on the public lands. There is just no question about that, that as we try to resolve this, there will be significant pressures on the public lands. For that reason, I think it is absolutely critical that we use our private lands in the absolutely most productive long-term fashion possible. I think that as a result of the helpful testimony you have given us on capital gains and passive losses—I like to call it expensing because I see it in terms of small woodlot owners getting normal expenses—you have helped move us in the right direction. Let me just ask a couple of questions—maybe one for each of you. Start with you, Ms. Batson.

Could you tell us specifically, in your view, how Oregon has been hurt as a result of the loss of capital gains and these passive loss changes?

Ms. BATSON. We have not investigated the capital gains issue. We have been involved simply with the passive activity regulations. Our clients and also various experts and individual landowners in Oregon have told us that at this point, they are sort of waiting to see what they are going to do; that is, they have not yet sold their land as a result of these regulations and they also have not been in the situation where they have needed to invest in any major management expenses, they have been putting it off to find out.

So, in terms of what has actually happened so far, we do not have any evidence. In terms of what people think they will do, they are telling us that if they cannot deduct their expenses, they will not make those expenditures.

Chairman WYDEN. What is the effect of putting off these decisions? Does putting off the decisions decrease the fiber we are going to get or the quality?

Mr. BATSON. Certainly ultimately, if you are not investing in management that needs to be done in terms of planting, reforesta-

tion, clearing, precommercial thinning, and ultimately harvesting, you are losing out on productivity.

Chairman WYDEN. My concern is that any time wasted in terms of encouraging these responsible investments is time lost, and time that is particularly precious right now when we have all these pressures on our public forest lands. I do not think we can afford to have the Government sitting on its hands and not giving some leadership for responsible forest management of these private lands. I think your testimony helps us and moves us closer to getting that management.

Question for you, Ms. Waldorf.

We have these 20,000 small woodlot owners. If they cannot make it, where are they going to go and what is going to happen to their lands?

Ms. WALDORF. I think it depends on a lot of different things. There are some people who will obviously die and their land will be cut over and returned to cut-over lands much like we had in the early 1900's. Young people, such as myself, will expand their professional businesses and try to hold onto the lands because they love them, but will not be able to afford to actively manage the timber.

Something that I think it is important to point out is that we do not have an option in the State of Oregon about whether we reforest our lands under the Forest Practices Act. We are required to reestablish a stand of timber so it is not an option that we have.

Certainly for those people who are in the middle, what will happen, I think, is like I said in my testimony, they will practice accidental forestry. The lands will not be precommercially thinned and brush management will not be done.

Chairman WYDEN. Accidental forestry is not good enough for this Member of Congress——

Ms. WALDORF. That is right.

Chairman WYDEN [continuing]. Not with what we need in this State. I appreciate your using those words as you do.

Mr. Sellery, what is the status of the situation to deal with the passive loss issue administratively? There are some who have said, "We do not really need legislation and if you have legislation, well, you are going to open up a lot of loopholes and the like for speculators."

We will take it one at a time. What is the status of the effort to try to get some reasonable expense deductions back for those small woodlot owners administratively?

Mr. SELLERY. Thank you, Mr. Chairman. The IRS regulations for the definition of material participation as it relates to passive losses are proposed and temporary. That is, they are proposed, which means that they do have the ability to change them in their final form but they are also temporary, which means they carry the force of law until the final regulations come out, which is obviously one of the difficulties we are having right now. The difficulty, of course, is that the IRS has only limited abilities to interpret the law as to how far they can go in providing interpretive relief, if you will, for special unique situations. They cannot, in essence, make new law.

In that regard, while efforts will continue, obviously, to see what opportunities there might be, and you have been very helpful in talking to both the IRS and the Treasury about our particular needs, the legislative approach that H.R. 1086 represents has, we think, focused the attention of both Members of Congress as well as the Treasury and IRS to the unique situation of timber owners so the legislative approach that is represented through the bill that was introduced by you and your colleagues, and your Forestry 2000 Task Force, I think, has been a beneficial help in trying to get this problem corrected.

Chairman WYDEN. We have been at it, as you know, for well over a year and just have been banging away at trying to get this resolved. What do you think the chances are this is going to get resolved administratively? I just want to get it done; I do not care who gets it done, and my view about these things is you always get it done faster if nobody gets the credit, so the idea is to just get it done. Do you think it is going to get done administratively?

Mr. SELLERY. The difficulty with the—if you take the past to judge what the future may be, is that they have taken years to get these regulations out. They have still other sets of issues within the entire passive loss area before the final regulations could come out for material participation.

So, obviously, we both want the same thing. We want to pursue the very fastest track possible and get it done. But I think the Treasury is backed up in this area like they are in a lot of other areas and obviously the legislative approach has been beneficial in hopefully moving that process along.

Chairman WYDEN. I wish this was kind of like the marquee at the old movie house where it says "coming soon" and it eventually gets to you. But I just really think that there has been such a long period of time that we are going to have to have a legislative solution, and we appreciate your support and that of the other organizations and we will work really closely to try to get this resolved one way or another as quickly as possible.

Mr. Brown, one question for you at this point.

How much land in Oregon, nonindustrial woodlands in particular, is essentially out-of-class right now?

Mr. BROWN. How do you mean out-of-class, Congressman?

Chairman WYDEN. Essentially not being used as productively as it might be.

Mr. BROWN. We estimate that out of the roughly 3½ million acres of nonindustrial private, there is probably 700,000 or 800,000 acres that we term underproductive brushland.

Chairman WYDEN. OK. So 700,000 or 800,000 acres are underproductive. That is the State of Oregon's current estimate?

Mr. BROWN. Yes.

Chairman WYDEN. What is that land being used for now? Do we know?

Mr. BROWN. It is basically growing brush.

Chairman WYDEN. Just growing brush.

Mr. BROWN. In Oregon a lot of the forest land is fairly well stocked. Much of this forest land reforested naturally but also Oregon has a Forest Practices Act that requires people to reforest following harvesting.

The underproductive land, as Ms. Waldorf indicated earlier, are lands that were logged during the late 1930's, 1940's, and came back into brush of low value hardwoods and we are kind of living with that, if you will, that legacy. That is a significant area that, in our opinion, needs to be addressed.

Chairman WYDEN. Just a couple of other brief questions, Mr. Chairman; otherwise we will be here forever and I would probably ask you all questions until breakfast time.

Ms. Waldorf, could you just list the major management and maintenance items that you would have in a total year, say, as a small woodlot owner, and what you are losing out on now as a result of these tax changes.

Ms. WALDORF. Dollar values?

Chairman WYDEN. Yes; give us a dollar value if you could, just very briefly, I would like to see if could not get a capsulized summary of just the main considerations.

Ms. WALDORF. That is very difficult to do. I would be happy to send you a list, because as I said before, there are different ownerships, different lands have different problems and will incur varying costs.

[The list referred to above may be found in the appendix.]

But we have talked this over many times and we feel that without any type of incentives at all, you would probably be in a negative cash flow situation even with a sustained yield on your lands. After you had paid for the mortgage on your land, property taxes, insurance, equipment repairs and maintenance, new equipment purchases, tree thinnings, timber stand improvement, road repairs, Government paperwork, and your taxes, and then, of course, you really need to consider, because this is a long-term investment, some sort of interest on your investment. So we feel that without the incentives of the capital gain exclusion, we are in a negative cash flow situation.

Chairman WYDEN. One last question at this point. Ms. Batson, many Members of Congress are concerned about forestry practices in Third World Nations; in effect, the concern is that there is a quickening destruction of our tropical rain forests and a concern that we will lose the forests worldwide. Do you think our tax policy, probably in a less methodical way may, in fact, be encouraging some of the same destructive sorts of policies in this country, by in effect, forcing over harvesting, or having to cut back on reforestation and the like?

Ms. BATSON. Certainly the environmental issues that you are addressing simply have to do with lack of forest coverage in general. If there are not tax incentives to plant and grow trees, particularly on the 700,000 to 800,000 acres of private forest land now in Oregon that are not even planted, and I am sure there is much more of that sort of acreage across the United States, that does create those kinds of problems.

As has been stated, there is a requirement in Oregon that land be reforested once it is cut, but that does not apply to lands that were cut many years ago. I do not think those requirements apply in the South and in many other parts of the country.

Chairman WYDEN. You all have been very, very helpful and to be a member of this Oregon congressional delegation and focus on this

issue where there is unanimity between the industry and the environmental community pleases me greatly, and now we have got to figure out how to translate that into other areas. We thank you for your help and your good expertise. Thank you, Mr. Chairman.

Senator FOWLER. Mr. Brown, are you harvesting more timber on private lands in Oregon than you are planting?

Mr. BROWN. Not than we are planting. The harvest rate is greater than the inventory growth.

Senator FOWLER. Why is that?

Mr. BROWN. Two or three things.

Senator FOWLER. Is it primarily because of the tax changes?

Mr. BROWN. I cannot answer that. There is——

Senator FOWLER. I am not trying to put words in your mouth. What is it in your opinion?

Mr. BROWN [continuing]. There are a number of factors. One is a very strong demand for products today, both export products as well as domestic products. There is a very strong concern in this State about actual or potential environmental regulations and some corporations are liquidating their assets and moving them to other States. Those are probably the two key ones.

Senator FOWLER. In your experience, what is the greatest, currently, what is the greatest Federal incentive for private landowners, as far as planting trees and increasing their inventory? Is it the Conservation Reserve Program, is it the capital gains tax, what would it be?

Mr. BROWN. You have to fracture it. For those landowners that are very knowledgeable, such as the Willamette Industries and Ms. Waldorf and her parents, I would say capital gains and the passive loss rule. For people that know very little about forestry and today are not practicing forestry, then a program like Forestry Incentives or the Stewardship Program or the ACP Program.

There Federal programs provide an outreach for organizations like ours and John Mixons to go talk to those people, get them involved in forestry, help them understand what their land is capable of doing and how that, in turn, can meet their personal objectives. So those programs provide a very important outreach.

So it is complex. There is not a panacea. We have spent a lot of time in the last 15 years studying and worrying about nonindustrial private forestry in this State and I have participated on national task forces, with the National Association of State Foresters and the Forest Service and others and that is what is difficult about it, is that there is not a panacea. It takes a host of—an array of programs, if you will, that addresses different personal needs of different landowners. I mean they are as individual and different as everybody in this room. Everybody in this room has needs that are different and somehow we, in terms of our programs, have got to be able to address all those.

Senator FOWLER. Mr. McNeill, in your estimation or in your company, how much could an increase in private plantings in Oregon offset a decrease in harvesting on public lands? What would it take to support whatever estimate you are going to give me?

Mr. MCNEILL. That is a very good question. I do not believe I am qualified to answer that, but I would give you, that we have so many facilities that provide so many jobs to communities and 43

percent of our volume of wood comes from our own land and the balance comes from other sources. If the other sources do not provide that volume, the mills have to close. It is a balance. We need the volume from some source, be it the nonindustrial private landowner or the public agencies, to keep those mills running. If we do not have that volume because it is not available, then the mill cannot run.

Senator FOWLER. Leaving the mill out of it for a minute, I know that is a major problem, the whole problem of how we continue to produce jobs and sustain the jobs that we have in every part of the United States, but what I am asking any member of the panel, or all members of the panel, is if there was a substantial decrease in cutting allowed on national forest lands, what would be necessary to insure that that decrease be made up in private lands? Or could it be?

Mr. BROWN. Senator Fowler, I think it obviously depends on the size of decrease that occurs on Federal lands.

Senator FOWLER. It depends on what?

Mr. BROWN. The size of the decrease of cut on Federal lands. As an example, in my testimony I indicated our annual cut is about 7½ billion board feet in this State. Approximately 5½ billion of that comes off of Federal lands and about 2½–3 billion of that comes off of—basically off of private lands, both industry and nonindustrial private.

If through some action—either changes in laws or reapplication of laws already passed, make a significant decrease, say you cut that Federal part in half from 5–5½ billion down to 2½ billion, you would have a very tough time making up that difference off of private lands. I would say you could not do that. You might be able to get as much as somewhere between a ½ billion and 1 billion additional feet out of private lands in the long term, but not in the short term.

When I say long term, I mean 60 to 80 years; short term I mean 20 to 30 years. You would have a difficult—the studies that Dr. Beuter and others have done at Oregon State University show that if you make a change in Federal policy that decreases the cut off of Federal lands, you will have a significant decrease in total supply in this State.

Now Dr. Beuter is a member of one of your later panels, you might wish to quiz him a little more about that.

Senator FOWLER. Mr. Sellery, I think it is in your testimony or between the lines in your testimony, but just tell me, what are your projections for increased timber plantings, private lands, nationally, if we restored the capital gains and the passive loss rules?

Mr. SELLERY. We are in the process right now of trying to update that through a survey of many of our members to find out what those kinds of intentions may be. We think that the capital gains role and the passive loss role in the economic considerations, the mix of the economic considerations, play a significant or are a significant factor in whether people will plant or not.

Senator FOWLER. But you do not have that yet?

Mr. SELLERY. We do not have the updated version that we want to get to provide this Congress with——

Senator FOWLER. Let me ask you then, following up on what I have been talking about. Is that—I know you will get the projections eventually but if you do not have them now, you do not have them, is this the best way, in your opinion, to address the economic problems in communities that have been hardest hit by the decrease in timber sales on public lands?

Mr. SELLERY. I understand what you mean, I am not sure that I have that kind of data that I can support my statement, but I will say to you that in my role, I have traveled all around the country, and in my informal meetings with especially private nonindustrial landowners, they consider the stability of a fair tax climate to be critical in their decision-making processes as things move along. I might underscore what Ilene Waldorf was saying earlier about that stability, and that is, if you do have a fair and equitable tax climate over a long period of time, over the entire growing cycle, then I think the confidence level, the comfort level, if you will, of those landowners increases dramatically.

The difficulty that has happened to us since 1986 is that that stability is not there. That comfort level, if you will, knowing what that stable tax policy is going to be, is not there, which provides turmoil in the decision-making process and that is one of the difficulties that we are facing right now.

Senator FOWLER. All right. We have got to quit, we could both go on for a long time, we have two other panels.

Senator FOWLER. Ms. Waldorf, I want to end with you here with the policies. Do you think yourself, your family, and your clients would accept, is it reasonable—I am going to put it this way, is it reasonable to place wildlife and habitat and forest management restrictions on private landowners in conjunction with preferential capital gains and passive loss treatment?

Or do you see that as an unwieldy, and unruly intrusion of the Federal Government?

Ms. WALDORF. I think that the majority of us are already enhancing wildlife and environmental concerns on our tree farms. We all love to see the deer, we all love to be able to drink out of our streams. I think a management plan that includes environmental enhancements would not at all be something that we would hesitate to embrace, were it included in a capital gains bill.

I would like to make a comment about——

Senator FOWLER. Who do most private landowners consult about forest and wildlife management?

Ms. WALDORF [continuing]. The state forester, perhaps. I think most of us just do it. It is very natural to us. We are very independent, lovers of our land and when I ask you to please leave us alone, I think that when you tell a person that you have to do this and this and this and this, pretty soon they say, "Wait a second, this is my land, I am paying the property taxes on it, I am financing the operation, let me do it and it will follow."

As far as the timber supply, I think I made a point in my testimony about these lands are not ready to cut yet, if we look to the nonindustrial private timber land owner for a quick fix to the timber supply problem, it may fix it on the surface and a lot of people will sell their timber now because supply and demand can take the higher price and we probably would be foolish not to cut

our timber, but in the long run what you are going to end up with is the same thing that we had in the early 1900's, very many lands that are cut over and denuded, and not managed properly.

Senator FOWLER. Thank you all, very much, for your time. Our next panel is on trade barriers. Welcome Mr. Tom Waggener, Mr. John LeFors, Mr. Bud Stewart, Mr. Mark McDougal.

Gentlemen, good morning. First, Mr. Tom Waggener, the director, Center for International Trade in Forest Products from Seattle.

TESTIMONY OF THOMAS R. WAGGENER, PROFESSOR, FOREST PRODUCTS ECONOMICS AND INTERNATIONAL TRADE, CENTER FOR INTERNATIONAL TRADE IN FOREST PRODUCTS, UNIVERSITY OF WASHINGTON, SEATTLE, WA

Thank you very much, Senator. I appreciate your efforts and Congressman Wyden's holding these hearings today.

I represent the Center for International Trade in Forest Products, a unique public/private sector cooperative program headquartered at the University of Washington to enhance the trade opportunities for the forest products industry.

My prepared statement is available and I would just like to ask the staff to be sure that there were a couple of corrections on the first two pages, that those corrections be included in the copies for the permanent record.

Senator FOWLER. They will be. I note them here. Thank you, Mr. Waggener.

Mr. WAGGENER. I will try to summarize very quickly the materials that have been provided to you regarding the current trade situation in the Pacific Rim, primarily focusing on the softwood situation.

The message that I would like to leave with you is that international trade and export opportunities are really not only an opportunity for added sales of forest products from the United States and from the Northwest, but really represents a shift in our way of thinking. The United States and particularly those of us here in the Pacific Northwest are now involved in an integrated timber economy, largely centered on the Pacific. It is not simply a matter of separating a domestic and an international market. Trade expansion is playing a new role as we evaluate how to integrate our forestry and forest products activities in this new emerging international timber arena.

Let me just highlight a couple of points regarding our current trade position. In 1988, the United States exported $12.7 billion in wood products including both solid wood lumber, as well as pulp and paper products; $5.2 billion of this was solid wood products and for one of the first times in recent years, the United States enjoyed an actual trade surplus in its wood account. We exported more solid wood products in 1988 than we imported.

The Pacific Rim, of course, is highly significant to our trade and particularly North Asia which is made up of Japan, China, Taiwan, Korea, and Hong Kong. In excess of $5.6 billion of our forest products trade was with the North Asia region or almost 44 percent of our total trade. Trade in wood products is dominated by solid wood products. In 1988, $5.2 billion of the total was in solid wood prod-

ucts and, of course, we know that Japan as a single market is the most significant customer for those of us here in the United States.

Markets in the other North Asian region countries, particularly South Korea, Taiwan, and the Peoples Republic of China, need to be actively considered and developed in terms of our emerging trade.

Let me just simply say that we should also not be overlooking Canada as a trading partner, our second leading trading partner in wood products in 1988 with over $530 million in trade.

U.S. softwood exports have increased in both volumes and values. Our trade trends tend to be distorted if we look at only one or the other; we can have an increase in value, but volumes can be declining or stagnant: or, likewise, we can have increasing volumes being traded but with declining unit value. But we have experienced since 1985, an increase in both volumes and values in our wood products trade.

Softwood logs, of some concern here in the Northwest, accounted for about $2 billion of our 1988 trade which was twice the 1984 level of value, but this actually represented only a 36 percent increase in volume. Thus, the significant value increase largely reflects an increase in unit value.

In contrast, our trade in softwood lumber, one of our value added products that we are working very hard to increase in our trade, was up to $1.1 billion in 1988, up 114 percent in value but also representing a 103 percent increase in volume, more than a doubling of volume since 1984.

The Northwest is ideally suited, with our timber species, for the kinds of products demanded in the international marketplace in the Pacific Rim. The States of Washington and Oregon lead in that trade accounting for in excess of 40 percent of the total U.S paper products trade and well over 50 percent of the solid wood products trade. My testimony includes a number of features in individual country markets, both from a supply standpoint where we have competitors, as well as in consumption. For the sake of time, I will not address those at this point but if there are questions we can discuss that subsequently.

Let me address the question of trade and tariffs. Certainly the obstacles and limitations on markets that affect or face our industry are quite important. I would just like to summarize a few points.

U.S. exporters of softwoods are faced with a general bias in the tariff schedules of other Nations which favor unprocessed logs and semiprocessed timber in contrast to higher value added goods. This bias is also more significant for the developing economies of the Pacific Rim than for established, mature markets.

Tariff rates in developed markets are generally modest but with substantial differences between processed wood and unprocessed wood particularly in Australia, with Canada as we know with plywood, and in Japan and in Scandinavia.

Discriminatory rates for developing countries in the Pacific Rim show considerably higher rates on unprocessed logs, generally a 10 percent duty rate or more, with rates on lumber often exceeding 15 percent. Rates on plywood range from 25 to 30 percent and reach 40 in the case of the Philippines. So the overall tariff structures

are higher in these developing countries as well as discriminating against unprocessed wood.

We find that the market development programs undertaken cooperatively by the private sector, the State, and Federal efforts, have improved significantly in the last 5 years. Cooperative programs by FAS, the International Trade Administration, Forest Products Industry, and the newer university-based International Trade Development Centers have all added focus and coordination. These efforts can be strengthened and improved, and are still minor in terms of total resource effort compared to what is taking place in many of our competitor countries.

I would urge the committee to look at the need for overseas representation, specifically in the case of forest products. To my knowledge, representation through FAS, the Aricultural Trade offices and the offices of the U.S. Trade Representative lack direct forest products expertise. While being encompassed under the umbrella of agricultural products, the forest product markets are substantially different requiring a different set of skills and effort.

The industry has restructured; it has become more competitive, it has become more international, it has adopted an awareness of the need to integrate into the overseas marketplace. The industry has adapted. We see a shift in the international markets of the Pacific Rim from hardwoods to softwoods which should and can favor our region. In the future, opportunities are there if we accept the challenge and move to adapt our marketing strategies to take advantage of those opportunities.

The Northwest forest economy is important to the States of this region. If we change our philosophy from one of selling to one of integrating into these markets, the future should be bright. The opportunities are there. The resources are there if they are coordinated to take advantage of those markets. Thank you, very much.

[Mr. Waggener's statement may be found in the appendix.]

Senator FOWLER. Thank you, very much, Mr. Waggener, and for your preciseness.

Mr. John LeFors, vice president of Willamette Industries, from Albany, OR.

TESTIMONY OF JOHN LeFORS, VICE PRESIDENT OF WILLAMETTE INDUSTRIES, ALBANY, OR

Mr. LEFORS. Senator Wyden, Chairman Fowler, I am John LeFors, the vice president of Willamette Industries. My company operates 70 plants in 17 States and manages over 1 million acres of timberland. My primary responsibility is the management of four particle board plants; a medium density fiberboard plant and a structural I-joist plant. These operations are in Oregon, Louisiana, and Arkansas and employ 850 people.

I appreciate the opportunity to appear today to discuss timber trade opportunities in the Pacific Rim.

Our products are shipped to Taiwan, Korea, Japan, and China. We feel that the markets in these countries represent the highest potential for purchase of wood products in the Pacific Rim. We are finding increasingly strong markets for manufactured products in all of these countries despite existing trade barriers and increasing

freight costs. I might mention, in addition to the currency exchange rate variations.

For example, recently we shipped a 22-container order to China of our fire-retardant particle board. These products were used to refurbish a hotel, a tourist hotel, in Beijing. We have received subsequent orders for nonfire-retardant products which indicates a need for higher quality products than can be obtained elsewhere. We also expect additional orders in China for our fire-retardant particle board.

China is a recent market for our particle board and we intend to continue to promote our value-added products.

Taiwan and Korea represent excellent markets for our products because they have highly developed furniture and cabinet-making industries, and little particle board or medium density fiberboard production capacity. We have shipped to these markets for 6 years and the volume has steadily increased.

Japan has the greatest potential for our product although it has a relatively large domestic particle board industry. The predominant Japanese domestic product size is 3 feet by 6 feet which is a very poor utilization for most U.S. producers. To address this issue, we are building a production line in Oregon which will produce this size very efficiently.

We expect medium density fiberboard and particle board to be among the future leaders in wood products exports. We currently ship medium density fiber board from Arkansas to Europe, the Mediterranean, and the Pacific Rim. I do not think of central Arkansas as the ideal location for an export operation, but it works.

Senator FOWLER. They like it there.

Mr. LEFORS. They like it there. Our exported particle board is shipped primarily from Oregon.

In addition to these products, we expect growth in exports of structural panel products, glulam beams, laminated veneer lumber, and wood I-joists. All of these products are manufactured in the Northwest in very efficient plants.

I believe our industry's products and manufacturing capabilities can address the marketing opportunities in the Pacific Rim for the foreseeable future. We produce products which customers in Japan, Taiwan, Korea, and China are utilizing and we manufacture a variety and a quality that are not available from other sources.

Historically, U.S. producers of these products have been erratic in their support of this market. In recent years, we have seen a more continuous commitment to service these markets. This commitment and a reduction in tariff and nontariff barriers will provide greatly increased sales opportunities.

I support the recent U.S. Government action with regard to Japan. Our experience is that only this type of leverage will bring action and this trade policy will produce results. It will open markets and provide new opportunities for the marketing of U.S. wood products.

At this point in time, I think trade barriers are effectively the entire issue. At some point in the future, when we have increased our sales significantly, we can look at customizing products for this market. Such items as packaging, specialized products, value-added or semi- or fully-finished products could produce sizeable sales.

Our Government programs do help to create new markets for our wood products and I urge continued support for the TEA Programs and FAS Programs.

In conclusion, the U.S. wood products industry is competitive and aggressive. With reasonable access to these markets, we could dramatically increase exports of all our products. We produce high-quality products. We produce a wide variety of products. They are desired and essential in the growing Pacific Rim markets. The wood products industry represents an excellent export opportunity for the United States.

I thank you for the opportunity testify and will be happy to try to answer any questions.

[Mr. LeFor's statement may be found in the appendix.]

Senator FOWLER. Thank you, Mr. LeFors, very much.

We welcome Mr. Bud Stewart, vice president of Bohemia in Eugene, OR.

TESTIMONY OF BUD STEWART, PUBLIC AFFAIRS COORDINATOR, BOHEMIA, INC., EUGENE, OR

Mr. STEWART. Thank you Senator Fowler, Congressman Wyden, and good morning. My name is Bud Stewart. I'm public affairs coordinator for Bohemia, Inc., a forest products manufacturing company headquartered in Eugene. I am substituting for Keith Wright, Bohemia's vice president of marketing and it is my intention to make my oral presentation with some excerpts from our written presentation which you have.

Senator FOWLER. For the record I am going to test your public affairs abilities and see if you can do it in 6 minutes.

Mr. STEWART. Thank you for inviting us to appear before you and give our perspective on some international trade matters.

If you have not heard of Bohemia, Inc., let me take a minute to tell you that we are a medium-sized, diversified, publicly owned company operating 14 and soon to be 15 manufacturing plants in Oregon and California. We employ some 2,700 people and in the fiscal year just ended, we posted sales of $306 million, nearly all of that in products of our own manufacture.

We make softwood lumber, veneer, plywood, particle board, glue laminated beams and timbers, medium density fiberboard, and pulpwood chips.

As you might expect, marketing is an essential ingredient of Bohemia's success over the years, and more recently, export markets have become of great importance to us. Export sales now amount to 15 percent of our total forest products sales, and we hope to raise that figure to 20 percent in the next 2 years.

Historically, export markets have provided a dimension of stability to forest products markets, which for many years have been plagued by boom and bust cycles. Your letter inviting us to this hearing asked for our perspective on forest products trade in Pacific Rim markets. You have asked us to address the list of seven questions and I will speak to your questions one by one. Question one asked us to identify and give our general views of Pacific Rim markets which demonstrate the highest potential for purchase of U.S. wood products, regardless of trade impediments which may

now exist. Pacific Rim countries with the greatest market opportunities for use of finished U.S. wood products are Japan and Australia, and possibly Taiwan and South Korea if significant price advantages can be demonstrated for wood construction over steel, concrete, and masonry.

In the case of Japan, products with the greatest growth potential are those used in heavy timber construction; materials custom-cut to Japanese sizes and specialty goods. As respects Australia, U.S. wood products used in heavy timber construction are seen by us to be in a very favorable position for taking advantage of an expanding market.

Question two asks which U.S. products may be future leaders in these markets.

Showing the greatest potential, in our opinion, is large dimension structural laminated timbers; we commonly call them glulam, a product line which is at the vanguard of the rapidly developing heavy timber construction market in Japan.

Question three. How should the U.S. industry change manufacturing characteristics, product lines, promotional programs and such things in order to address these opportunities?

U.S. companies should approach the Japanese market after conducting a thorough market research effort on the viability of given product lines and after developing a marketing strategy. There is no substitute for good homework.

They should determine if they are producing or can develop a quality, marketable product, and if the product is already known and used in places like Japan.

Note that word quality. Our Japanese friends are sticklers for it. They can afford to pay for the quality they want and they seem to be willing to do without a product rather than water down their quality expectations. Question four. Recently, the U.S. Government has singled out Japan as an unfair trader for its forest products trade barriers. What, in your opinion, will be the outcome of this action? How will Japanese industry and Government respond? What should be the U.S. Government trade policy in this area?

Unequivocal, U.S. Government actions are needed to call Japan to task for the unfair trade practices it has been conducting against non-Japanese manufacturers, especially against U.S. exporters of finished wood products.

Japanese Government officials have repeatedly demonstrated that they only respond to pressure, primarily from domestic sources. Also, Japanese politicians have a difficult time explaining to their constituents that a previously sheltered market must be opened. The only thing that can mitigate this problem to a degree is for a politician to show that he is being forced to do so by a foreign government. In the present disputes, I think we will post some impressive wins. But it is going to take time and more determined effort on the part of our Government and elected officials.

Question five. Are trade barriers the whole issue, or can steps be taken by our producers which will make Northwest wood products more attractive to the Japanese consumer?

Trade barriers are indeed an important factor in any equation with regard to determining the competitiveness of U.S. products;

however, U.S. companies should work harder at custom manufacturing products to meet Japanese or other foreign specifications.

Bohemia often does what we call custom cuts for our Pacific Rim customers, principally the Japanese. We will sell the customer a batch of logs at a negotiated price and saw them for him in one of our mills exactly to his specifications at a negotiated manufacturing cost. The customer gets to choose the logs he wants as well as the products he wants cut out of them, and the mill keeps the chips and the other byproducts.

If there was ever a win-win in this business, this is it. American workers keep the manufacturing jobs, raw logs are not exported and the customer gets exactly what he wants to buy.

Question six. To what extent are Federal or State Government efforts effective in helping create new markets for U.S. wood products in the Pacific Rim?

Numerous Federal Government entities deserve to be commended for their efforts in helping promote exports of U.S. products, and especially forest products, to Pacific Rim nations. These include the U.S. Embassy in Tokyo; the U.S. Customs Service's International Nomenclature Division; the U.S. Department of Commerce's Office of Forest Products and Construction and several others.

My time has run out and I will leave it to you to read our response to question seven, which is in our written material. Thank you for listening.

[Mr. Stewart's statement may be found in the appendix.]

Senator FOWLER. Thank you, Mr. Stewart, very much. Last, but not least, Mr. Mark McDougal, trade attorney from Portland.

TESTIMONY OF MARK G. McDOUGAL, TRADE ATTORNEY, PORTLAND, OR

Mr. McDougal. Good morning, I am Mark McDougal, here in place of Mark Foster who regrets his inability to attend today. While I am aware that this hearing has a wider scope, the example of laminated veneer lumber [LVL] is relevant to the subcommittee.

The dispute over the proper tariff classification of LVL can easily turn into a technical discussion. That discussion has been submitted for your consideration. However, the technical discussion is illusory as Japan's classification of LVL at a 20 percent tariff level, is a calculated decision to protect Japan's fledgling timber industry.

Japan is imposing a barrier to the imported engineered LVL, a solid U.S. wood product, while openly admitting its reliance upon the U.S as a source of wood supply. I would like to read two relevant sentences from a letter written by the Consulate General of Japan, to Governor Goldschmidt:

> Reliant upon a proportionate supply of forest products from the State of Oregon, Japan has come to depend upon this stable supply of forest products being maintained in the future.

The letter further states:

> Japan is obligated to facilitate the protection of a specified list of articles and related industries. Therefore, it is difficult for Japan to lower the existing tariff of 20 percent.

The technical discussions surrounding LVL, is part of our submission to the USTR's ongoing Super 301 investigation. As you may be aware, the public comment period for that investigation ends on July 18. That process hopefully will recognize that Japan is engaging in an unfair trade practice.

Many of the questions submitted to us by the subcommittee have been forwarded to the appropriate experts for answers. As we receive information to those questions, and as we update our Super 301 submissions, we will provide the subcommittee with those materials. Again, Mr. Foster regrets his inability to participate today, however, he will follow up on the specific questions submitted and is willing to further assist the subcommittee.

[Mr. McDougal's statement may be found in the appendix.]

Senator FOWLER. Thank you very much, Mr. McDougal.

Congressman Wyden.

Chairman WYDEN. Thank you very much, Senator.

Let me start with you, if we could, Dr. Waggener.

Is there any doubt in your mind that the future growth in the Pacific coast wood products business is going to be primarily in foreign sales in the years ahead?

Mr. WAGGENER. I am not sure if I catch the question entirely, but I think the growth of the Pacific region, with other parts of the world, is where there is going to be a tremendous growth over the next several decades in terms of economic development, expanding incomes; I think the demand for wood products will accelerate and continue to grow. There will certainly be short-term cycles—the difficulties in China are obviously a bit of a setback there, but I think the potential growth in the region clearly indicates that forest products demand will expand substantially in the Pacific.

Chairman WYDEN. You gave the right answer, regardless of what you thought the question was. That really begs my second question. What is happening in the domestic markets? Housing starts, Canadian products coming in here—what is happening in terms of the domestic situation?

Mr. WAGGENER. Of course, the domestic market is and will remain the largest single factor behind the U.S. forest products industry. Worldwide, this is the largest single integrated market in the world. So we cannot discount that. I think we find that the domestic market has increased significantly since the recession of the early 1980's, beginning in 1984 and 1985, we have seen peak levels of production in most of our wood products for domestic markets. We have seen the Canadian share of softwood lumber drop from its peak before the imposition of the tariff and then the stumpage adjustments. That has come back up a little bit in the last year or so, but still remains below its 1985 level.

I think we see a little bit of a slowing now with the slowdown in domestic housing construction. We hear that the market is still good, but it is softening, and that is going to continue in the next year or two. I think we will certainly see a much tighter domestic market than we have seen during the 1985–88 area.

Chairman WYDEN. That is what I am concerned about—the trends in terms of the domestic market. Is it not correct that young people, say between 25 and 35, they are having real problems buying a home?

Mr. WAGGENER. The timber economy and construction, of course, is tied to both incomes and interest rates. As construction has slowed, housing prices have gone up. There is an encouraging sign there, however. As new starts have flattened, the rate of increase of expansion of new construction has slowed, but there has been a tremendous surge in remodeling and restoration, and we see a very significant domestic market for wood products as older homes are refurbished, new rooms are added—which is absorbing some of the slack from the new construction.

Chairman WYDEN. One last question for you. You have been a long-time Japan watcher. What do you think is going to happen with the 301 process? I was very much convinced it was absolutely essential that we go forward with that process because there clearly are barriers. All of us, as the process evolves, needs to figure out a way to negotiate those down rather than to just automatically say, "You have to go to the end of the line and have sanctions." What do you think is going to happen?

Mr. WAGGENER. I think there are two parts. One is, of course, clearly the tariff and barrier issues that are being addressed and those are significant. The problems of product classification that were referred to—how a particular product gets pigeon-holed into the existing tariff structure. I think there is considerable room for movement on that discussion with Japan.

I think the other side of it is the efforts that are going on to promote the efficiency of U.S.-based wood products, things like the demonstration housing projects going back to the Summit House to make our products more economic and hence more competitive in that market.

I think the two efforts, the addressing of the barriers plus adapting to the marketplace are both essential.

Chairman WYDEN. Mr. Stewart, you all have worked very hard with Pacific Rim markets, so could you maybe give us a capsulized summary of what you think the major barriers are to an Oregon firm getting into Japan?

Mr. STEWART. Right now it is the problem we are having with our glulam product. The Japanese insist on misclassifying it. Basically what they are doing is calling it plywood. Until they decide that they are going to do it the way everybody else thinks they should, and stop using this as an excuse to protect a fledgling industry at home, I think we will continue to have some difficulty there.

There are also problems with some building codes and some cultural peculiarities; those take time to overcome and we do not just always overcome those things, sometimes we accommodate them, by making products the way they want them made.

Chairman WYDEN. I was told that they are actually going so far as to put restrictions on such things as nails. Is that correct? Can it be stipulated that we have to meet standards on things like that?

Mr. STEWART. I have not heard that, but I have heard some other things that have to do with peculiarities with fire codes; some antiquated ideas. Those sort of things are just going to take time.

Chairman WYDEN. Mr. Waggener, are you up on that point?

Mr. WAGGENER. There is an issue that is related to the building codes and spacing standards for how you put studs in the walls and

so forth, and included in that, of course, are some requirements for nailing.

Chairman WYDEN. There are requirements for nails, then, in terms of their building codes?

Mr. WAGGENER. It is the number of nails and spacing for a particular kind of joint configuration, but as I mentioned, one of the efforts to parallel the trade barrier question is to make our products economic, and the demonstration projects such as the Seattle and Vancouver Village projects, being funded by the Japanese Housing Loan Corp., are documenting the efficiencies, which allows U.S. producers to, in a sense, demonstrate that our design standards and technology are, in fact, adequate, and I think there are encouraging signs that the Japanese will reexamine those codes in light of the evidence. But without that evidence, it is going to be extremely difficult to convince them that their codes are wrong.

Chairman WYDEN. A question perhaps for you, Mr. Stewart, and you, Mr. LeFors. I had a report prepared for me last year by the Congressional Research Service with respect to the export situation, the Government's role in this country in terms of encouraging exports.

The Congressional Research Service was really quite critical of the Government's existing efforts at this point. They said that there was a bewildering conglomeration of Federal agencies charged with encouraging exports in this country, including wood products. It said that this multiple-agency approach, in their words, can be a daunting challenge to prospective exporters.

Is it your view—we will start, perhaps, with you, Mr. LeFors—that one of the things we could try in the trade area that would be helpful to wood products would be a better effort to coordinate the Government's approach in promoting exports? I'll start with you, Mr. LeFors, and then maybe go to Bud.

Mr. LEFORS. First let me say that the export issue per se, is not an area in which I have great expertise, but I have been involved with the National Forest Products Association in its International Trade Council for a couple of years, and I would have to agree with that assessment; that it is a fairly bewildering array of—maybe you could call it opportunities—to allow the Government to assist in the export of products.

The products that I am most familiar with and we market our products primarily through wholesale distributors, are accepted to a great degree in the fashion in which they are manufactured in this country. The quality of the product, which is very significantly affected by the quality of the wood that we have here in the Northwest, really provides a major incentive for the Pacific Rim markets to use these products and I would agree with Mr. Stewart that there are significant portions of those markets that will do without a product rather than buy inferior products.

Pacific Rim countries are importing substantial quantities of wood products, not only from the United States but from other areas, and they tend to buy the higher quality products. Our products that are sold in Japan are the highest quality products of their type available in that marketplace, and of course, the Japanese complain about the prices but they continue to buy because of the quality and the variety of products we can produce.

Chairman WYDEN. Mr. Stewart, what do you think about this comment by the Congressional Research Service that there is a bewildering conglomeration of activities of the Federal Government in exports?

Mr. STEWART. I would have to agree that there are, in fact, a number of offices and agencies that we have dealt with in connection with our current problems, but I would have to disagree with anybody who said this was bad or there is something wrong with this. We can cite numerous instances of outstanding cooperation and help in this. We especially want to thank Senator Packwood's office for the leadership that they have provided in getting this misclassification issue brought to the attention of the right people, and I can tell you that if it were not for our Government's excellent work in this, we would not have made a dime's worth of progress by now.

Chairman WYDEN. I think what the Congressional Research Service is saying is: "Can we do better? Can we do better with a more coordinated kind of effort?" We will be anxious to hear your views on that. There is no question that with respect to individual cases—you mentioned one in particular that our delegation has been very concerned about—unquestionably, there has been progress. The issue is whether we could do better with a more coordinated kind of effort, and your comments have been helpful.

One last question. I guess the concern that a lot of Oregonians have at this point, particularly after the ballot measure with respect to raw logs and the export of raw logs from State lands, is that we have all these raw logs, essentially at dockside, and there they are and at the same time our mills do not have adequate fiber.

Is it the view of this panel that at least a portion of those raw logs would be going overseas as finished lumber if we did not have such an array of trade barriers? That would be the question I would want to ask.

Mr. STEWART. May I speak to that?

Chairman WYDEN. Sure.

Mr. STEWART. I think what you say is certainly correct. There is bound to be an increase in trade in finished products, of forest products to our Pacific Rim friends. There will be nothing automatic about this. We are going to have to work just as hard as we have always worked to get every order that we get. We are going to have to make a continuing effort to make what the customer wants to buy both in specifications and in quality.

Chairman WYDEN. What you are really saying, Bud, and I think it is a thoughtful point, is that we will have to work our heads off but we would have more opportunities to have finished lumber go overseas, is that correct?

Mr. STEWART. That is correct.

Chairman WYDEN. OK: Mr. Waggener, do you want to add to this?

Mr. WAGGENER. I could only add that I think that the recognition that we are playing in an essentially integrated regional market certainly limits the extent to which we can force any particular product on any particular market. I think the efforts to adapt, to produce to the requirements of the customer, instead of

saying: "This is what we have produced and, won't you please buy it," certainly is going to lead us to value-added products.

I would say that the value is in the log, our foreign customers recognize that, and we can and should be smart enough to get that value out of it, but to paraphrase the old commercial, "If we want to earn a profit we have to do it the old fashioned way," earn it in terms of being shrewder than our competitors in recovering the total values in that log. It cannot simply be done by regulation.

Chairman WYDEN. I do not think anybody is saying that; I think that Government does not create the jobs, the private sector creates jobs. The question is whether the Government can increase opportunities for the private sector. If we can reduce some trade barriers, it seems to me there are more opportunities and I think that was what Bud Stewart was talking about and I think that is what is really behind our interest in this measure. Thank you, Mr. Chairman, and the panel.

Senator FOWLER. Dr. Waggener, since I am new out here on the coast, I can ask some questions that may be obvious to everybody else, so you in the center—through your work at the center, are you involved in, at all, in the debate over old-growth forests, what they are and what should be done with them?

Mr. WAGGENER. Only indirectly. Our focus is mainly on the international markets but clearly the competitiveness of our industry which includes certainly the raw material supply questions, is fundamental to understanding our competitiveness in international markets.

Senator FOWLER. Let me ask you a question that I—since I am asking it I can characterize it either as silly or stupid, but since we have all businessmen here, substantial people representing substantial companies, let us assume that the public policy of the United States as enacted through the World Bank, the International Monetary Fund, all of our international-oriented development schemes, let us assume that somewhere down the line—I will not pick a date right now—is successful.

What is that policy? That policy is to encourage development, to create the kind of capitalistic competitive systems in the Third World and everywhere we—really all over the world, but primarily the Third World. So we have all these little economies, growing, booming economies, and all of our efforts, as you know, are to create that kind of industrialization, to create a model of the U.S. type of capitalism in all these countries.

We are going to assume that was successful 5, 10, 20 years down the road. Would there be enough forest products to go around? Is there enough wood to build millions and millions of houses? Is there enough wood to provide the paper that that would engender? We are supposed to look down the line; you look down the line and tell me what would happen.

Mr. WAGGENER. I guess as an economist I would have to argue that we have the corroborating forces of markets in terms of both price and cost of production and whatever timber supply would be available will seek out its best allocation in terms of both types of products and markets, so——

Senator FOWLER. If we were successful internationally, what would that do first of all along the line—realizing that it is pure

hyperbole, but if that happened, what would that do initially to the domestic market?

Mr. WAGGENER [continuing]. I think we will find that the domestic market in any case is going to be under increasing pressure as we see ourselves as only one competitor for wood, not only domestic-produced wood, but wood from Canada and from other regions. So the U.S. position, the U.S. domestic market, is going to shift from being an isolated, largely self-sufficient market, to being simply one major player in an integrated world timber economy. I suspect to some extent this will mean higher prices as we adjust to the competitive demands of other markets.

I think this will act as a stimulus to our forest management to do a number of things to enhance our productivity. We are still one of the dominant timber-producing regions of the world, and we have the productive capacity to be the premier wood grower.

Once the political questions of what fraction of our timber resource is going to be accessible for commercial purposes, I think we will find that the United States and the Northwest particularly will continue to be a key player both in domestic as well as international markets. But I think what we will find is that the domestic market increasingly is going to have to adjust to the dynamics of the international timber economy.

Senator FOWLER. Let me try and narrow it one more time, then I will open it up to the rest.

If we were successful in our development schemes around the world, when would we run out of wood?

Mr. WAGGENER. Senator, I don't think we will run out of wood. We have been saying we were going to run out of wood since 1905 and if we look at forests simply as a physical——

Senator FOWLER. In 1905, there may have been two, maybe three industrial societies. What happens if we have the kind of growth that we are encouraging throughout 187 countries of the world?

Mr. WAGGENER [continuing]. I think that is going to enhance the productivity of forestry in this region. If anything, I think forestry will become more important and grow as we respond to those opportunities.

It is not just simply using up the existing stock; I think as we use that existing stock, clearly we have to balance the rate at which we do that against the productivity as new timber comes on line, and that is a very delicate issue. But I think in the new emerging global timber economy, this region stands to benefit, the United States stands to benefit. We will see our forestry efforts enhanced and playing a stronger role on the world scene.

Senator FOWLER. Anybody else? Anybody see any conflict in our present public policy and the opportunities for continuing to have a sustainable forest products industry 20 or 30 years down the road?

Mr. STEWART. May I speak to that, Senator?

Senator FOWLER. Please.

Mr. STEWART. Our present public policy is drifting in the direction of locking up the forest resource rather than using it for full multiple use which includes the growing and harvesting of trees. If that trend continues, then I would say, indeed, the United States is going to run out of timber resource, and to the extent that happens in other countries of the world, they are going to run out also.

But I would cite something from the Oregon experience that will suggest that you do not run out of timber if you manage your forests right.

The Bureau of Land Management, an agency of the Department of the Interior, manages some 2 million acres of forest lands in Western Oregon. How it got to be that way is something that history buffs can explain to you. But in 1950, the Bureau of Land Management took an inventory on those lands. There was some 40 billion feet of standing timber. In the 38 years that have passed since then, the Bureau of Land Management has sold some 37 billion feet of timber off those lands. A recent inventory, I think last year, shows that there is about 42 billion of standing timber on those same lands. So you take care of them and you get a sustained yield.

Mr. LEFORS. Chairman Fowler, I cannot answer your question, but let me make an anecdotal comment about the composite products that are manufactured in Europe as opposed to the United States, where there is a vast difference in the amount of forest resource available to those economies——

Senator FOWLER. Before you go on—where do you get your trees, where do you get your logs—where does Bohemia get their logs?

Mr. STEWART. Bohemia gets its timber supply in Oregon from quite a variety of sources. Mostly from Federal lands administered by the Forest Service and the Bureau of Land Management, perhaps about 60 percent. The remainder comes from other people's lands, private lands; we buy a great deal of timber from open market sources, and about 5 percent of our needs come from the 45,000 acres of timber lands that we own in Oregon.

Senator FOWLER. But 60 percent of your business comes off of—dependent upon sales off of Federal lands?

Mr. STEWART. Yes; it is.

Senator FOWLER. Thank you. Mr. LeFors.

Mr. LEFORS. The furniture and cabinet production industries in Europe utilize about 60 square feet per capita of composite products. Particle board, you may or may not know, is manufactured from byproducts of the saw milling and plywood industries. In this country, we use about 3 square feet per capita. The suggestion to me is that the utilization of the resource would change considerably as the value and the availability of the timber changed.

In Europe, typically, the green end of a board plant is stacked high with slabs, pallets, pallets with nails in them for that matter, that are pulverized and the metal removed from them and they use that as raw material for their products. We don't do that in this country, although the trend certainly in paper production is to use a lot more recycled fiber.

Senator FOWLER. As Henry the VIII said to most of his wives, "I won't keep you any longer." Thank you very much to all the panel.

Our last panel is on old-growth forests. Welcome to Kent Connaughton, John Beuter, Larry Tuttle, Pete Emerson, and James Geisinger.

Welcome, gentlemen. First, is it Connaughton?

Mr. CONNAUGHTON. That is correct.

Senator FOWLER. Thank you. Mr. Kent Connaughton, professional forester with the U.S. Forest Service, State Chapter Chairman, Society of American Foresters, from Portland. Welcome, sir.

TESTIMONY OF KENT CONNAUGHTON, PROFESSIONAL FORESTER, CHAIRMAN, OREGON SOCIETY OF AMERICAN FORESTERS, PORTLAND, OR

Mr. CONNAUGHTON. Thank you Senator Fowler, Congressman Wyden, for this opportunity to speak for the forestry profession as the chairman of the Oregon Society of American Foresters.

Let me begin my comments with three conclusions if not recommendations.

One, is that the forestry profession believes that the people of the United States deserve an answer to the question, "What is old growth?" To this end, the Society of American Foresters has, since 1984, recommended that the agencies who have jurisdiction over old-growth forests, define old growth based on ecological characteristics and not the age of the stands.

Now the ecological characteristics have the benefit of really identifying the unique characteristics of old growth, that is, they identify the composition of old-growth forests. Composition is fundamentally the combination of flora and fauna that exist on any site. Two, an ecological definition would recognize uniquely the functioning of old-growth forests, that is, how they utilize nutrients, utilize energy, and cycle water. These are different than our young-growth forests. Third, our definition would identify explicitly the structure, the unique structure, of old-growth forests. Walking into an old-growth forest, the thing that distinguishes it primarily from a young-growth forest is standing older timber of large size and there are standing large dead trees; and there are also on the forest floor, large logs, large trees that have come down. So we recommend that old growth be defined in an ecological sense.

We recognize that the people of the United States need to know how much old growth there is and where it is. So what we recommend is that the land management agencies, particularly the Forest Service and the BLM, go out and take an ecologically based definition and translate it into an inventory of how much old growth exists, where those old-growth ecosystems are.

With that information, these agencies can then proceed to identify options. What are the choices that we have for allocating and using those old-growth forests.

Now third, how do you get to the conclusion of what to do with old-growth forests? The forestry profession has come down pretty strongly that under Federal ownership the way to get that answer is through Federal land management planning, through the completion of Federal plans; plans for the national forests and also new plans for the BLM districts.

The benefit of land management planning is that you can bring all scientific information to bear on the unique ecological characteristics that exist from one forest to another. That takes advantage of our science.

Second, through land-management planning. you can, in fact, open up the options for forestry to the public. You can have people comment. The alternatives to public comment, for example through litigation, are that very few people can be represented in the courtroom; similarly not everyone can be represented in our legislative

halls. So we recommend land management planning for that reason.

Third, and this has not been well appreciated, one can make mid-course corrections if in fact you have made your land allocation and your management decisions through planning.

OK, so those are the three broad recommendations from the forestry profession. Now the old-growth issue fundamentally is a Federal one. Jim Brown earlier mentioned that the 13 Southern States had a standing softwood inventory equivalent to what we have here in the State of Oregon. What he did not mention was that 70 percent of the standing softwood inventory in Oregon is in Federal administration.

Now the question is, exactly how much of that is in old growth? We do not have a good answer. The land management agencies, the Forest Service and the BLM think that between 55 and 60 percent, using conventional definitions of that inventory would, in fact, be in old-growth forests, another one-third or 33 percent would be in forests that might be old growth or would be candidates to become old growth in future decades.

So what we have is a significant amount of uncertainty exactly about old-growth forests and what they mean in terms of Federal land management options. The forest industry has been using old growth and continues to use old growth. It has not entirely made the transition to young growth forests. The latest mill surveys that have been completed by the Forest Service show that 65 percent of the logs processed in 1985 came from trees 100 years or older.

What that meant to the forest products industry is that these logs came from old-growth forests. For the lumber industry, three out of five logs come from old-growth forests. For the plywood industry, it is an even greater proportion: four out of five logs.

That brings us back around to the point of, "What is the definition of old-growth forests?" We believe that ecologically based definitions will help resolve some of those questions. Through land management planning, we will have the option to be able to lay out the choices for the people of Oregon and the United States, lay those options out and allow people to express their preferences. The Governor has endorsed that process.

We believe that is a very sound process based on good science and to mention the spotted owl—the spotted owl research project——

Senator FOWLER. Before you go to the spotted owl, under your definition of old-growth forests, is it a renewable resource?

Mr. CONNAUGHTON [continuing]. Yes; it can be a renewable resource.

Senator FOWLER. How?

Mr. CONNAUGHTON. It depends on how the land managers treat their forest stands and their forest ecosystems.

Senator FOWLER. Does that mean selective cutting or what does it mean?

Mr. CONNAUGHTON. It might. That varies by the ecosystem. In fact, there is not one single definition of the old-growth ecosystem. That would vary by site condition. Our old-growth forests in our higher elevations are going to be different than our lower elevation

forests. The silvicultural prescriptions or the management intervention that might be appropriate will vary.

Senator FOWLER. But under your definition of old-growth forests, you are not talking about locking it up under the prevailing view?

Mr. CONNAUGHTON. It will be appropriate to, in fact, preserve certain of our old-growth ecosystems. You can obviously see that for scientific purposes. For some aesthetic and spiritual purposes, preservation will be necessary. Under other conditions, it will not be appropriate nor will it be necessary.

Senator FOWLER. Thank you.

Mr. CONNAUGHTON. But just to summarize, by 1992, our spotted owl research will be complete. If the Federal land management agencies are permitted to complete their land management plans—to adopt and implement those plans, we believe that they can, in fact, use those plans and modify them as we go along. We definitely support the land management planning process.

We are quite concerned that the current state of appeals and litigation do not permit Federal land managers to either adequately protect or manage their forests and therefore, the benefits that society might otherwise realize from those forests are not as great as they otherwise would be. Thank you.

[Mr. Connaughton's statement may be found in the appendix.]

Senator FOWLER. Thank you very much, Mr. Connaughton.

Mr. John Beuter, professional consulting forester with Mason, Bruce & Girard, in Portland.

TESTIMONY OF JOHN BEUTER, PROFESSIONAL CONSULTING FORESTER, MASON, BRUCE & GIRARD, INC., PORTLAND, OR

Mr. BEUTER Thank you, Senator Fowler and Chairman Wyden.

My name is John Beuter. I am with Mason, Bruce & Girard, one of the oldest forestry-consulting firms in America. We have been in business since 1921 and have worked across the entire spectrum of forest resource management and conservation.

I also want to note the time I spent at Oregon State University as a professor, during which time I developed the background, some of which I am going to use for the discussion I have here today. That included a study of Oregon's timber sources in the 1970's and work I did for the Congressional Research Service on Federal timber sales in the 1980's.

The purpose of this testimony is to answer questions that were sent to me by committee staff and I will do my best to do that in the time available.

The first question pertained to the definition and characteristics of old-growth forests. I really find I do not disagree with anything that Kent Connaughton just said. It is not an easy thing to define; it is not clear what the exact characteristics are of what we are trying to preserve. The thing that we do know for sure is that a lot has already been preserved and the real debate or the discussion is about what remains in the—or has been in the timber management base.

The kinds of things we want to think about—we want to think about site-specific values of these stands of old growth. We can, for

example, cut a stand that is valuable for ecological purposes and we might regret doing that.

On the other hand, we could set aside a great quantity of old growth and regret doing that because of the socio-economic disruption that results.

Senator Fowler asked a question about whether old growth is a renewable resource. In theory that is true, but to reproduce old growth would be extremely costly and I am not sure we are willing to bear that cost either, so we are trading off the cost of preserving some against the cost of not having as much as we might have.

But I do want to make the point that an awful lot of old growth is already set aside. How much old growth is left in the Pacific Northwest? There are a lot of figures being thrown around between 3 and 7½ million acres, and that includes some acres that have been set aside. It includes areas in the national forests, mainly, and other Federal lands. There is very little old growth left on private lands or on State-owned lands.

How much old growth should be set aside? If we knew the answer to that much of the debate would have disappeared. Obviously, we would like to address this question in such a way that we would increase our well being without making anybody any worse off. It is clear that at the margin, somebody is going to be worse off based on the decisions that will be made.

The old growth question has been brought into a forum that is not as simple as conventional economic analysis. We cannot do simple present net worth calculations. We cannot look only at jobs and income. We have to look at other things. That makes it very complex.

What is the dependence of the wood products industry on old growth? Few, if any, wood products plants depend exclusively on old growth timber. Any that might, were probably fully amortized long ago. The issue is not the dependence on old growth per se, but rather the availability of merchantable timber that can be profitably utilized.

What I am going to say in the next few sentences is very important. In aggregate, investments in the forest industries have been made on the promise of sustained yield which essentially has been interpreted as nondeclining even flow on the Federal forests.

Harvest capability in perpetuity that was predicated on the land base available for timber management at the time. Timberland withdrawals and the new plans reduced the long-term sustained yield capability and appeared to negate the promises of the past. It is not surprising that investors and those dependent on forest industry activity are upset. Most of the timber land in the Pacific Northwest, private as well as public, is managed on sustained yield. That should be emphasized. The problem, particularly in Western Oregon, is that past decisions on private lands were made with expectations of timber harvest levels from public lands that are not now likely to occur. There is no longer any slack on private lands to cover the anticipated losses of harvest from the public lands.

Years ago, a drop in the allowable cut on public lands might have been compensated for by increasing the harvest on private lands. There are few opportunities for that to occur now because

most of the timber on forest industry lands is 10 to 20 years from merchantability. Any decrease in the public harvest is apt to translate into a net decrease in total timber supply compared to what has been available in the recent past.

A concern related to this is that the anticipation of, or the actual decrease of timber availability is driving private owners to harvest their timber earlier than they would have otherwise. Which will, in effect, also decrease future timber supplies, and so we have a dynamic in the relationship between promises of the past, what is happening in terms of the Federal plans and the reactions that you are seeing on private lands, and it remains to be seen how that dynamic nets out.

Can and should mills be reconfigured to use smaller trees? Yes; that transition has been occurring at an increasing rate over the past 15 years and will continue to. Along with the reconfiguration has come greater efficiency, which means more complete utilization of the resource, and less labor per unit of production. These are trends that must continue to maintain the competitiveness of this region.

Do we have enough scientific information to make proper long-term decisions regarding the future management of old growth forests? Nobody knows for sure, but I would guess that we do. Regardless of our knowledge, we will always have to make decisions that involve risk. In my judgment, we have embarked on a rational process with Federal land use planning to do that, and even though we might want a lot more information, we are still going to have to make decisions in the short run.

Are all old growth stands biologically significant? Philosophically, it could be argued they are, both in time and space, but, practically, the answer is no. We are constantly reminded of the vast acreage of old-growth timber that has already been cut over, not only in the Pacific Northwest but also in the Northeast, the South and the Upper Great Lakes region. Yet it is not evident that we or nature are any worse off because of this. The significance of our losses—so-called losses—is usually cited in the context of the beauty of a preserved stand that we might be referring to, and an arcadian view of how wonderful it was when the region was covered with those kinds of stands.

There is no evidence that we are worse off because more old growth was not preserved in earlier times. It remains to be questioned how much of it we need to preserve our quality of life now and in the future.

There is no question based on knowledge we have now, which certainly is superior to what we have had in the past, that we are recognizing values that were not recognized in the past, and I think that brings us to again a site-specific evaluation of these stands.

Am I running out of time?

Senator FOWLER. Yes, Mr. Beuter, I cannot rely on my timekeepers. Let me do that so we will have some time for discussion.

Mr. BEUTER. I will then refer people to my written testimony where the rest of the questions are answered. Thank you.

[Mr. Beuter's statement may be found in the appendix.]

Senator FOWLER. Mr. Larry Tuttle, state director of the Wilderness Society.

TESTIMONY OF LAURENCE TUTTLE, OREGON REGIONAL DIRECTOR, ACCOMPANIED BY DR. PETER EMERSON, VICE PRESIDENT, RESOURCE PLANNING AND ECONOMICS DIVISION, THE WILDERNESS SOCIETY, PORTLAND, OR

Mr. TUTTLE. Thank you, Senator Fowler and Chairman Wyden, I am very pleased to be here today. I am also pleased to be joined by the vice president of the Resource Planning and Economics Division of the Wilderness Society, Dr. Peter Emerson.

Dr. Emerson is here on the west coast to help as part of an expansion in our office, including a full-time economist as we embark on a second phase of an economic study for the region. We are very excited to be continuing on this project and believe that the information that we will be able to gather will have a significant influence on the discussions about old growth and the entire transition in our economy in the Northwest.

There is no place else in Federal land policy in this country that I believe needs more urgent attention than the policy changes that are facing us in the Northwest. There is also nothing about what is going on in the Northwest that is more confounding than that we really do not have as good information as we ought to have about the inventory of how much and where the old growth is.

Second, what are the impacts on the economy throughout the region as we move into a transition? It has really only been in the very last few years that scientists have begun to discover the unique ecological characteristics of old growth and what the benefits of old growth are to the economy as well as to the scientific base of knowledge.

As the scientific and public interest has grown, this lack of accurate old-growth inventory information has certainly made it much more difficult to come up with an informed public policy and management decisions that are is in the long-range interests of the region.

For that reason, the Wilderness Society undertook its own inventory, proposing to distinguish, importantly in our opinion, between mature forests and true old-growth forests. We did this by using the ecological definition of old growth as developed by Forest Service and Bureau of Land Management scientists.

The conclusions of that study are preliminary but we are moving ahead with them. Based on our inventory in Western Oregon and Western Washington, for example, we now estimate that there is about 2.4 million acres of old growth, about 10 percent of the original province still remaining that has been uncut. About 800,000 of those acres are in protected areas. That compares with over 6 million acres that had been the prior estimates of the Forest Service. As has been previously mentioned, virtually all of the old growth is gone on State, private and tribal lands, and the 1.5 million acres that is left of old growth is almost entirely on Federal lands.

Unfortunately, the forest planning process that is now being finalized and that we have been going through for the last few years has failed to recognize, because it did not have the mechanism, the

difference between mature and old growth forests. For that reason it appears that a continuing policy by the Forest Service and other Federal land managers will simply be to harvest the oldest trees and the largest trees first. We think this policy will have some irrevocable effects on the region and we think that a policy change is in order to protect the natural features that are so important to the entire region.

Redirecting the Forest Service and BLM timber program certainly will have some influences over the economy in the Northwest and many of those transition influences are already underway. The joint statement by Dr. Emerson and myself details the changes that have occurred as far the contribution of the forest products industry to gross product of the region and the number of jobs. But I think it is important to point out that there are some forces on the Northwest lumber economy that seem to continue on, and have since 1969. These will have some significant influences which we should recognize as we deal with the transitional economy.

Compared to other regions of the country, and particularly the Southeastern part of the United States, the Northwest is a high-cost producer. Evidence of that is the migration of plant capacity in the last 20 years to the Southeastern part of the United States.

With the relatively stable supply of timber in the Northwest, we find that combined with the export of logs from this region now burgeoning at about 4.2 billion board feet, what is happening is an extension of what has been happening for a long time. The producers in this region are under a classic cost/price squeeze. We are likely to see that these managers make the very right decisions that they have been noted for over the years: to modernize, to reduce costs, and to do everything else to keep their operation competitive. The lumber and wood products industry in this region is going to look different in another 20 years as it looks different from the 1969 era when I first began in business in this State.

There are some policy options we would like to suggest; and we suggested them in our written testimony. The first would be to stop cutting ecologically significant old growth in the Pacific Northwest until scientifically defensible inventory and maps are made available for Congress so that decisions can be made to warrant permanent protection.

Second, we need to find ways to keep jobs in the Pacific Northwest rather than to exporting those jobs to the Pacific Rim along with our logs.

Third, and something you have heard a lot about today, we need to concentrate timber production on our most productive lands. In the Northwest, the most productive lands are private industrial lands and private nonindustrial lands. We cannot expect the Federal forests in this region to take up all of the slack for the inability of these lands to produce unless we continue to push for their increased productivity.

Fourth, we need to encourage economic diversification for values in the forest that are other than timber values. The bottom line is that we need in the Northwest a forest-based economy, not just a timber-based economy in order to move forward. Thank you very much.

[Mr. Tuttle's statement may be found in the appendix.]

Senator FOWLER. Thank you, Mr. Tuttle, very much.

Dr. Peter Emerson.

Mr. EMERSON. Senator Fowler, I would say that what Larry has just presented is a very excellent summary of our joint statement and I really do not have anything to add in great detail to that.

Perhaps the best use of my time would be just to be available for questions and answers.

Senator FOWLER. Thank you, Dr. Emerson. We will sure that you will be included in the questions and answers.

Mr. James C. Geisinger, president of the Northwest Forestry Association from Portland. Welcome, Mr. Geisinger.

TESTIMONY OF JAMES C. GEISINGER, PRESIDENT, NORTHWEST FORESTRY ASSOCIATION, PORTLAND, OR

Mr. GEISINGER This is an interesting position to be in.

Mr. Chairman, I appreciate this opportunity to be here today and my thanks go out to you for making the trip out to the West coast and also our thanks go to Congressman Wyden for cohosting this hearing.

For the record, my name is Jim Geisinger. I am president of the Northwest Forestry Association. We are a trade group that represents about 65 manufacturers of lumber and plywood in Washington and Oregon. The one thing, Senator, that they all have in common, the common ingredient that keeps them together as an organization, is a very significant dependence on Federal timber. They rely almost exclusively on Federal lands whether it be Forest Service or BLM for their raw material supply and how this issue of old-growth management is resolved is going to determine to a very large extent the future of my members and their employees in this region.

I would like to submit for the record a prepared statement which you have. I would also like to submit a very comprehensive answer to the questions that the staff provided us in advance of this hearing, and also a white paper that we prepared called "Spotted Owls, Old Growth and the Economy of the Pacific Northwest."

Senator FOWLER. Fine; they will also be made a part of the record.

Mr. GEISINGER. Thank you. In the interest of time, I will keep my oral comments very brief.

I think I should have provided you with an assessment of the current situation we are facing in the Pacific Northwest regarding the availability of Federal timber. We are operating under two court injunctions; one affecting the U.S. Forest Service, the other the Bureau of Land Management.

As we sit here today, about 2.5 billion board feet of the fiscal year 1989 appropriated timber sale program for the U.S. Forest Service will not be sold this year. Similarly, ½ billion feet, 500 million feet of the Bureau of Land Management's timber sale program, has been enjoined and unless something happens between now and September 30, it also will not be sold.

That totals 3 billion board feet of timber that Congress authorized to be sold this year and it won't be because of court injunctions involving the spotted owl. That's enough timber to build

about 300,000 homes and provide 54,000 man years of employment in this region. Unless something gives, we are going to feel the economic impacts of that injunction as we enter into 1990.

Even the sales in the West side that are not affected by the injunction, are now subject to a consultation process between the U.S. Fish and Wildlife Service and the Forest Service and BLM because of the proposal to list the northern spotted owl as a threatened species. That consultation process is not working very well and the net effect is that we have no timber sales from Federal lands on the west side of the Cascades in Washington and Oregon until further notice from the courts or from you in Congress.

To give you an example about how difficult the situation is, on the Willamette National Forest there was a huge fire last summer called the Shady Beach fire. The Forest Service wrote an environmental impact statement on salvaging that volume and just now, over a year after the fire, timber sales are being offered.

Wednesday of this week, the U.S. Fish and Wildlife Service insisted that five timber sales be withdrawn from the timber sale program because of concerns about spotted owl habitat. We are talking about burned timber, Senator, it was burned and destroyed and rather than being utilized for finished products, it is going to be taken——

Senator FOWLER. Hold on a second. Turn off the machines there; we can have silent demonstrations, but we are not going to have anything that disrupts, so that everyone can have a chance to talk.

Mr. GEISINGER [continuing]. The point is, is that there is no timber that is off limits to these obstructive practices employed by the preservation community. I should say that on the few sales that have been sold in that fire salvage area, four of them were sold this week; three of them went for over $600 a thousand board feet, which is about $400 above the appraised value of that timber, and that is purely a reflection of the timber supply shortage that we are facing as a result of these injunctions.

The Mt. Hood National Forest is a particularly bad, or good example, depending on your viewpoint of this situation. By September of this year, there will be no volume under contract on that forest. All existing timber contracts will have been harvested. There will be no timber flowing off that million-plus acre national forest.

Now, typically Clackamas County, where I live and where most of the Mt. Hood National Forest is located, receives over $6 million a year in Federal timber receipts through the 25 percent revenue sharing formula. They are going to get $6 million in 1989 because it has been a good harvest year and prices have been high, but under Forest Service projections if these injunctions continue into 1990, Clackamas County is projected to get $350,000. From $6 million to $350,000 in one year as a result of this court injunction.

Now I think the question that is on everybody's mind is the issue of how much old growth is there and what is it? In our assessment of the situation, we do our best to rely on the data that has been collected by the Government agencies, agencies that have been involved in managing these resources for over eight decades. According to their figures, there are 7½ million acres of old-growth timber remaining on Federal lands in Washington and Oregon.

That includes all Federal lands, national parks, scenic areas, recreation areas, as well as the national forests.

Out of that total they estimate that 4.2 million acres are in land use allocations that are off limits to logging. That is 60 percent of the existing old growth that is off limits to commercial uses today. The unreserved portion of this resource they say, is being harvested at a rate of about 1 to 1½ percent per year. They project that it will take 50 years under current harvest rates before that old growth will be gone, and in its place on the unreserved portions will be a vigorous, healthy stand of second growth timber capable of maintaining our industry in perpetuity.

Now the one thing that we seem to fail to acknowledge in this whole debate are the significance of land use decisions that have been made in the past and how much productive land has already been taken out of timber production. Today, less than one-half of the national forests in Washington and Oregon are even considered for timber production purposes. Less than 40 percent has actually been allocated to intensive timber production practices.

There have been significant amounts of land taken out of production since 1975, and I would like to itemize those for you on the national forest in western Oregon where the debate seems to be the most intense.

Senator FOWLER. Let's do that but ask you to summarize them.

Mr. GEISINGER. Since 1975, the Mt. Hood National Forest has lost 45 percent of its commercial forest land base to preservation. The Rogue River, 35 percent; the Siskiyou, 51 percent; the Siuslaw, 39 percent; the Umpqua, 37 percent, and the Willamette, 32 percent. The average loss of productive commercial forest land on those forests either legislation or administrative set-asides has averaged 40 percent over the last 15 years.

So I guess our question is: "How much is enough?" We think a very significant part of our timber base has been preserved already, and to make any further compromises is going to come at the expense of our economy and the timber industry in this region. Thank you.

[Mr. Geisinger's statement may be found in the appendix.]

Senator FOWLER. Thank you very much, Mr. Geisinger.

Dr. Emerson, I feel a responsibility after you gave up your time to bring you into this. What is your definition of an old-growth forest and is it the same as the Forest Service or Mr. Geisinger's?

Mr. EMERSON. Our definition of old-growth forest is the same as the scientific definitiod developed by the Forest Service and the Bureau of Land Management interagency task force. The scientific definition that we have used to quantify the amount of old growth that remains, ecologically significant old growth, is based on a consensus developed by agency and university scientists. It is certainly widely accepted. It is what Kent Connaughton referred to as an ecological definition of old growth. I do not think there is much disagreement about that at all now. The ecological definition of old growth leads us to the 2.4 million acre estimate for the western Washington and Oregon—west of the Cascades—that Larry Tuttle mentioned.

I think the definition that Jim Geisinger is using here, and he can correct me if I am wrong on this, is much more inclusive than

the ecological definition we are using because it includes mature timber as well as old growth forest. I believe that is the reason that Jim has a larger estimate of 7.5 million acres, or something like that.

Senator FOWLER. Explain to me in layman's terms why using your definition you come up with such a different estimate of the inventory than the Forest Service.

Mr. EMERSON. Because our definition is restricted to ecologically significant old growth only. The 7.5 million figure includes mature timber and old growth, which I believe you are adding up from the forest plans, is that correct, Jim?

Mr. GEISINGER. The other agency sources.

Mr. EMERSON. Also, I think 7.5 million acre estimate has not been adjusted for timber that may have been harvested, say, in the last 5 to 6 years. Important things like that. Furthermore, our ecological definition takes into consideration much more than just the age of the tree. It recognizes the distribution and mix of the trees, the characteristics of the canopy, the forest floor, and other parts of the ecosystem.

Senator FOWLER. Mr. Beuter, how would you describe the biological diversity in our national forests in terms of current wildlife management practices and—just do the wildlife for a second, we have not talked much about wildlife today.

Are our current wildlife management practices on the national forests compatible with and adequate for a healthy ecosystem based on your experience?

Mr. BEUTER. I do not know of any more diverse—more biological diversity in forests anywhere than exist on our national forests. In fact, even on our private forest land in this State, there is a remarkable range of forest conditions on all the forest land in Oregon. One of the things that rarely gets discussed, and maybe we ought to be taking a closer look at, is the amount and diversity of wildlife that is supported on private timber lands. With intensive timber management, this is something we have not focused on. We have pursued of this issue as if only public lands produce wildlife. So I would say that there is and there always will be much biological diversity on our forest lands, mainly because we do not all do things the same way at the same time and follow exactly the same practices.

Senator FOWLER. I asked that question, you remember, I think you were here earlier this morning, to Ms. Waldorf. I asked whether she was familiar or what she thought about the wildlife management practices on the private nonindustrial—whether or not—where she got the information and her answer first was perhaps and then she said every private landowner had an instinctive knowledge of how best to manage for wildlife.

I did not quarrel with her but that is not true in my part of the country, I can tell you with authority.

Mr. BEUTER. Senator, in Oregon we have legislated——

Senator FOWLER. We know how to make some good dove fields and how to keep the deer coming.

Mr. BEUTER [continuing]. Senator, in Oregon we have legislated forestry into our future, and what I mean by that is responsible forest management.

Senator FOWLER. What legislation is that that insures that future on the private lands?

Mr. BEUTER. We have a State Forest Practices Act that protects riparian zones, protects soil and diversity to some extent. Not to the extent maybe that we would regulate it on our public lands, but to a great extent diversity on private lands and good forest management, at least in the sense of getting a forest back growing, is legislated into our future in Oregon.

Senator FOWLER. You do not have wildlife easements, do you? Do you have any public easements granted by private entrepreneurs that will allow—where the private entrepreneur would be able to control his land, say who came on it, under what circumstances, and could hunt on it but you couldn't cut it. Anything like that? Proposals for that——

Mr. BEUTER. I can't point to specific ones but I think there are some agreements between Federal agencies and private——

Senator FOWLER. [continuing]. But I was just talking about the State Management Act. You do not have permanent wildlife easements as part of the State Forestry Management Act, do you?

Mr. BEUTER. Not to my knowledge on private lands, but certainly there are State reserves, on State lands.

Senator FOWLER. Right; let me bring my colleague into this here. I have some other questions, but——

Chairman WYDEN. Senator, thank you and I want to really commend the whole panel for this presentation. This, of course, here at home is a very noncontroversial issue, as I have been telling Senator Fowler. All of you, I think, have given us a very helpful perspective.

What I would like to do for a minute is pick up on some of the long-term concepts that I would really like to see get further discussed and explored as part of a long-term solution.

Let me start, Larry, with you if I could, on this log export question. As I understand it, it is your position that for the long-term, not just a year or two and what the delegation is trying to do, but for the long-term, what you all would like to do is put a ban across the board for private raw log exports. Is that a fair recitation?

Mr. TUTTLE. I think that is a fair recitation of some positions in the environmental community to be sure. I am not sure it is universally accepted. I do not think it is something that can necessarily be accomplished in the long term. But certainly if that were to happen, it is a very distant happening on private lands.

The step that the Oregon voters took 2 weeks ago is an appropriate step as far as banning exports from State-owned lands. The next and logical step is to close the Federal loopholes on Federal log exports and there seems to be some significant amount of timber that either goes out as whole logs through the substitution process or goes out through something I call minimally manufactured products, cants or merches, where you just cut off one or two sides of the log and maybe take that side that you cut off and cut into chips and ship that too. It is not very consistent with the needs of our Federal forests given the other conflicts that we are now facing. There are some positive things that can be done about both of those in the short and medium range.

Chairman WYDEN. I think there is a lot of support for that as we have discussed, but the way I understood it, at least from your perspective, is that it is long term. You did want to have a ban on private log exports?

Mr. TUTTLE. It has not been an official Wilderness Society position, so I won't say that.

Chairman WYDEN. If we go to something with a restriction or move in that direction in terms of private raw log exports, what do we do with all those mills that are dependent on public timber? How will a restriction on raw log exports in the private side help those people?

Mr. TUTTLE. That is the unknown in this, obviously. We have to begin looking to the region as a whole, in terms of its economy, particularly as it relates to the timber aspects of its economy, and the market will adjust, I think, in those kinds of cases.

One of the things that is not talked about in the current debate very much is the fact that there is some—Mr. Geisinger, I am sure, will be clear to disagree with me—that there are some benefits to the increase in the cost of stumpage. That is beginning to attract private logs into the market that have not been previously part of the supply system.

W.T.D. Industries recently made an announcement saying that they have been able to attract a significant amount of private, nonindustrial logs as a result of the stumpage price increases, so I think it is part of the market mechanism and I think it will work. I think we sometimes think of supply only as counting the number of logs rather than demand and supply and we need to keep that in the forefront.

Chairman WYDEN. Jim Geisinger, would you like to comment on what Larry said? So often as we go through, particularly these long-term issues, I may need to ask one of you and then get the other one to comment. Jim, why do you not pick up on your assessment?

Mr. GEISINGER. Congressman, I guess it seems amazing to me that on the one hand it is claimed that the reason the industry is deteriorating in the Northwest is because we are the high-cost producer relative to other regions, and then from the same person, hear that it is great that our stumpage prices are going up. I do not see how we can have that both ways.

The fact is that 60 percent of the cost of manufacturing lumber in this region is the cost of the log, and increases in prices are caused by shortages in supply. There is no reason why we cannot be here forever if we have those adequate supplies of timber.

As far as the contributions from the private lands, whether they be industrial or nonindustrial, is the fact that you cannot rely on those volumes over the long run. Everyone of those owners manage their land with different objectives. Federal lands we look to for the sustained yield of timber, and even under the modest management scenario I described in my presentation, under current plans, those forests in Washington and Oregon can provide over 5 billion feet of timber a year; they have only been selling about 4½ billion feet a year, and our objective simply is to maintain that status quo.

Chairman WYDEN. Let me ask one other long-term question, particularly to Jim and Larry, but the other two as well.

I am convinced that we have to figure out a way to do more with this issue than to spend our adult lives hanging around Federal Courthouses. I think that what has happened in this area, I put it as basically a lawyer's full employment act, is all we do is just run to the Federal Courthouse when either side essentially is concerned.

What about long-term concepts in such things as mediation, there has been some discussion or I guess, literature, about the notion possibly of a science court within the Forest Service, what would be your assessment long term, of looking at some of those kinds of approaches so that we literally do not just churn this over again and again in the Federal Courthouses in the Northwest and, I think, around the country as it goes forward.

Larry, do you want to start?

Mr. TUTTLE. As an old county official, I do not have any fear at all, so I will just get right into this one.

I really believe that it is going to take a change in the way we do business in the whole forest planning process. Not so much that we need to change the law, but we need to change the way we interact with each other. There are some things that are going on in Washington State that have been recently talked about in the media throughout the region The Old-Growth Commission on State Lands in Washington State seem to provide a mechanism for taking wide ranges of opinions and condensing it down into a solution.

There is a similar process that is beginning on an individual forest in Washington State, the Olympic National Forest. Getting people involved and invested early rather than waiting for the crisis to hit seems to be the right approach.

In addition to that, a recommendation I would make personally to Congress is that we could use your help in the oversight of the agencies If it appears that there are strong indications that the agencies are deviating from law or or putting themselves into a position of clash that we might be able to deal with them at that point.

So I think there is a lot of things we can do. I like Jim Geisinger a lot, but I would just as soon be doing a lot of variety of issues for Oregon and he probably would like to do a variety of issues for his constituents as well. None of us hanging around Federal Court is particularly going to solve those issues.

Chairman WYDEN. Are there any specific models at this point with respect to mediation or arbitration that you see as providing a kind of example where we might look long term?

Mr. TUTTLE. The Old-Growth Commission in Washington State. I think that was a good start. A similar very highly structured group is being started on the Olympic National Forest as well. It will probably be 2 or 3 months before we get a feel for that but both are good starts.

Chairman WYDEN. Let's do Jim and then our other two and then, Senator, if I could do a couple more questions, I'll——

Mr. GEISINGER. First, on the issue of litigation, I cannot agree with you more; too many forest management decisions are being made by judges. The fact is most of these lawsuits are over procedural issues as we discussed at the summit, Congressman, the National Environmental Policy Act is raised in almost everyone of

them. The environmentalists have been very successful in winning court cases based on procedures whether the agency crossed their "t's" and dotted their "i's" appropriately, whether they followed what the courts have interpreted to be the intent of NEPA.

There has not been very many victories on the substantive laws such as the National Forest Management Act or the Multiple Use of Stand Yield Act or the Wilderness Act, it has been on procedure. It seems to me that we ought to be able to find a more efficient and objective form for making those NEPA judgments rather than a Federal court, maybe something like the Labor Relations Board of some quasi-judicial forum that could be charged with making these judgments quickly because right now under NEPA in the court system we have out here in the West, and the Night Circuit Court of Appeals, it is easy to delay the implementation of a decision for 3 years.

Now turning to the mediation issue, the way our circumstances are today, I do not see a lot of value or benefit to the forest products industry or those that depend on our industry in the area of mediation. The reason is this.

We are always forced into arguing about the land base that is allocated to timber production and the lands that have already been set aside never get out on the table in the discussion. Those lands that have been set aside, have been set aside by you folks—wilderness areas, national parks, national recreation areas, national scenic areas.

The land that is allocated for timber production purposes is an administrative decision by a regional forester or forest supervisor. These two fellows go to bed at night knowing that when they wake up, those lands that have already been set aside are going to be there because they have been protected by Congress.

When we go to bed, we wake up wondering how many new appeals have been filed the next day on timber sales that we thought we were going to purchase and operate. So if you expect us to mediate in an environment of what is theirs, is theirs, and what is ours, is half theirs, we have only one way to go and that is down. There is no way to mitigate the impact of additional setasides.

I think Dr. Beuter said it very well or maybe it was Kent, that what is going to determine the long-range timber availability is the amount of land that is going to be managed for timber production, and if Congress or society feels it is appropriate to set what these fellows would call ancient forest aside and keep it out of timber production, then we ought to find some land someplace else that maybe in the past 20 years has been allocated to something that does not allow for timber production, and put it back in the land base. But under existing laws, that is impossible, so I think the nature of this issue is not conducive to mediation because the definition of mediation is give and take. We only have things to give, we have nothing to take back.

Chairman WYDEN. Why don't I move on to another issue since we made so much progress on that one. Jim, let me ask you another one.

In terms of the long-term supply issue in wood products, what is going to be the impact of corporate takeovers and mergers and the like on wood products. There is a lot of discussion now—timber

companies historically undervalued and that makes them takeover targets and the like. Let's say long term, what do you think the impact of mergers and acquisitions and takeovers and that kind of thing is going to be?

Mr. GEISINGER. First of all, I am not overly qualified to respond to the question, but I will take a shot at it anyway.

There has really only been one example of that in the Northwest, in Northern California, that I know of that has gotten national attention, and I would hesitate to say that because of that one example, to say that is going to be the future trend.

I do not think it is particularly good for the stability of communities that have grown up around this timber resource, but on the other hand, knowing what I know about the existing ownership and the modems of the companies that have those lands, I would question where that is going to be a real significant factor over the next couple of decades.

I may be proved wrong, but on the other hand, given the environment that we are asked to operate in in this region, I could see where some of those companies would be highly motivated to get rid of their lands and get out of here.

Chairman WYDEN. Is it right to say, though, that they are natural targets or many of them just, in theory, that they have been undervalued and as a result they would be targets. I think that it is pretty much speculation just as you say about what would happen. What I am interested in is whether you share this view that has been advanced by a fair number of economic thinkers that at the least they would be natural targets.

Mr. GEISINGER. I guess I hesitate to say yes to that, Congressman, because many of these ownerships have changed hands in the recent past, so their market value has been determined and there may still be a few companies out there whose timber stands are valued at 1920 values or whatever, but I do not think there is that many.

John, may you are better qualified to respond to this and I am, but I guess I just do not see that.

Chairman WYDEN. Let me ask one other question of Dr. Beuter. I recently got a Congressional Research Service report indicating that greater investment and intensive management on Federal forest lands could result in increased harvests now on a sustained yield basis. Do you, based on your research, agree with that conclusion that we got from the Congressional Research Service?

Mr. BEUTER. There is no question that intensive management on Federal lands will increase timber supply, but that is in the long run. It is not going to do a thing for us in the short run.

The problems that we are looking at are over the next 20 to 30 years.

Senator FOWLER. Is that the short run for you or the long run?

Mr. BEUTER. If I had a mill that I am trying to amortize, it is the short run. In that sense, the things that Jim is talking about in terms of investments that were made on the promise of levels of harvest that were thought to be available in perpetuity, those are likely to drop off at this time. Investing in intensive forestry on the Federal lands ought to be done as quickly as possible and as inten-

sively as is economically justified, but that is to provide for future timber supplies.

Chairman WYDEN. I want to thank the panel again. You all have been statesmen in terms of dealing with this issue and we appreciate your input and we will be working closely with all of you. Thank you, Senator.

Senator FOWLER. Mr. Connaughton, I just want to ask some things here for the record. In your opinion as a public servant working for the U.S. Forestry Service, what effect do log exports have on the U.S. timber supply?

Mr. CONNAUGHTON. On the timber supply issue per se?

Senator FOWLER. On the timber supply, period.

Mr. CONNAUGHTON. Let us focus on Oregon for a moment. The export issue here in Oregon—currently about 1 out of 10 logs harvested in Oregon gets exported. Our most intense supply shortages occur inland. The export issue, therefore, is not going to have very much effect, regardless of how it is resolved. In particular, it is probably not going to have very much effect on Douglas, Jackson, and Josephine Counties in Southwestern Oregon. Those are counties that depend and are tied very heavily to the Federal ownership and simply are not in a position to take advantage of any offsets or increased supply available by diverting exported logs to the domestic economy.

The situation in Washington is substantially different. The forest industry in Washington is, in fact, configured to accommodate a substantial amount of log export and also is configured to serve the domestic market. There you might get an entire reconfiguring of the existing industry if, in fact, you rediverted all of the private logs and all the public logs that currently go to export in Washington, to the domestic economy.

Senator FOWLER. What effect does the amount of exported logs have on the stumpage prices?

Mr. CONNAUGHTON. That is a good question and I do not have the answer to that.

Senator FOWLER. How does it affect the national forest?

Mr. CONNAUGHTON. That depends on which national forest you are talking about. The national forests that are, in fact, closest to our coast, closest to our export ports, in fact, undoubtedly feel some increased pressure in competition for their logs, simply because export logs sell more than domestic logs.

Of course, you can ask why don't more domestic logs go to the export market. In general, that is simply because by the time you get them to an export port, you have added so much in transport costs, you have not saved yourself anything.

So what effect it has on our inland national forests is probably none. Absolutely none. Those are local markets.

Senator FOWLER. Tell me briefly—has the forest service got some proposal that I do not know about in detail to inventory or determine and, therefore, inventory old-growth forest by satellite? Do you know about that?

Mr. CONNAUGHTON. I understand that the Forest service in undertaking a comprehensive inventory of old growth based on ecological definitions here in the Northwest. The techniques that they

are using I honestly do not know, whether they are using satellite imagery or not.

Senator FOWLER. Do you know about that Dr. Emerson?

Mr. EMERSON. Yes; the Forest Service has discovered a two-phase process. It involves satellite imagery for the first phase and then more detailed work including ground tracking in the forest in the second phase.

Senator FOWLER. Will the satellite imagery be able to determine old-growth forests from mature growth?

Mr. EMERSON. No; they will not be able to distinguish between mature and ecologically significant old growth.

Senator FOWLER. That is their definition and how are they are going to do that?

Mr. EMERSON. I think the second phase of the process is designed to do that.

Senator FOWLER. Which is what? How are they going to do that?

Mr. EMERSON. By going into the forest, doing sampling, going to individual sites on the ground.

Senator FOWLER. On the ground?

Mr. EMERSON. Yes.

Senator FOWLER. How long is that supposed to take?

Mr. EMERSON. That I do not know. The time schedules on the Forest Service's inventory project has changed around so many times that I could not give you an answer.

Senator FOWLER. I ought not to end on this issue but since I came out here for information I will wade in where I should not.

Mr. Geisinger, I have excerpts from the Northwest Forest Resource Council, that is you, is it not?

Mr. GEISINGER. We are a participant in that coalition of trade associations, yes.

Senator FOWLER. I was reading it last night when I was jet lagged so, but I have a sentence here that says, "No one knows if the spotted owl is in danger of becoming extinct." In my part of the country we have the same kind of issue with the woodpecker, with the cockaded woodpecker. We had a hearing in Washington on similar issues recently that I chaired on sustainability of the forests. One of the witnesses was Dr. Daniel Simmerlof who is professor of biology from Florida State. In his testimony, he described the spotted owl as, I quote, "Gravely threatened by habitat destruction." Would you disagree with his assessment?

Mr. GEISINGER. Yes; I disagree that there is enough information available to make a statement like that.

Senator FOWLER. Tell me about it.

Mr. GEISINGER. Well——

Senator FOWLER. I mean we have the Fish and the Wildlife Service, International Council for Bird Preservation and a multitude of prominent scientists by anybody's definition, all of whom are testifying before Federal and State committees that the owl is in danger of extinction. Who do we look to, what other prominent scientist should we go to to get different testimony?

Mr. GEISINGER [continuing]. At this point I do not know of any who would look at the existing research and say that the owl, unequivocally, is not endangered, but those that are saying it is are basing their assumptions on a handful of studies regarding—that

address the home range that the owls use and the type of habitat that was in that home range.

I guess the concern I have is their conclusions are based on computer models that are full of assumptions that have not been tested scientifically. The empirical data clearly seems to refute their conclusions. Going back to the early 1970's there were not more than a dozen owl sightings known in the Pacific Northwest. Today there are literally thousands and at the same time, during that decade-and-a-half we have been harvesting timber. Empirically the numbers are increasing every time they go out and look for owls. But if you believe the assumption that they can only live in old-growth habitat, if you believe that, it is easy to calculate how fast the old growth is being harvested and conclude that the owls populations are declining, yet the empirical data does not bear that out at all.

Now we, in the industry, have been investing about a quarter-of-a-million dollars a year for the last 3 years doing research on the spotted owl. We have a Ph.D biologist that is headquartered in Corvallis, OR. He is not an advocate, he is a scientist; he provides us with information and he is now producing results from research he has been conducting over the last 36 months that indicate the owl was found in many habitat-types much different than old growth. They are being found in second growth, they are being found in areas where small patches of old growth exist and the surrounding forest is heavily managed. It causes us some optimism regarding the status of the owl.

But if you just look at the handful of research done by advocates, I would see that in the scientific sense they might come to those conclusions.

Senator FOWLER. I am not debating with you and I am certainly no biologist but you twisted around here a little bit. It is not a handful, it is an almost unanimous parade of respected organizations including the Federal Government, maybe I should not include that in this respected list of organizations, but the Fish and Wildlife Service put in the Federal Register a few months ago; their conclusion was that more than 90 percent of the sites where spotted owls had been found in Oregon have been in old-growth forests.

In Washington State again, says Fish And Wildlife Service, no breeding pairs have found in managed second growth stands and I know you would not make the case, even as laymen, that the fact that you have spotted owls or any other endangered species spotted in secondary growth forests, jump to the conclusion that they do not need the old-growth forests to survive. But I go back to my first question, it is not just a handful, you have, I mean have had an awful lot of hearings on this, so I go back to what I asked you first, if you have some expert testimony that you think is more expert than all the other testimony we all have been having, then I want to know who they are because I want to invite them to testify. I want to hear, if we are going to keep this out of the courts as Congressman Wyden and everybody wants to do we have to come up with a sensible policy based on a consensus of information that we all respect.

Mr. GEISINGER. I do not question the credentials of the individuals or the organizations that are making those conclusions, but I

will say again, they are all looking at the same paltry amount of research that has been done on the owl. There is so much that is not known about that species that we feel the research has to be done before we can come to some conclusion that is going to eliminate 30 or 40 percent of our industry and our economy here in the Northwest.

Senator FOWLER. Just remember what I said. I want you to send me the name and address so I can give them some visibility.

Mr. GEISINGER. OK.

Senator FOWLER. Because we cannot get to the second step, the economic question, until we make a better determination, we would all agree on that, on the first step as to what is necessary, if it becomes public policy to act to insure the survival of the species.

Depending on the answer to that question, we may be able to come up with the balance that we all seek to insure that economic considerations are not harmed, are not unduly harmed certainly, in this question of biological diversity which the Forest Service and all of our federally managed land as you know, is responsible under the law to insure.

Chairman WYDEN. Senator, could I just ask one other real quick one?

Chairman WYDEN. Larry, your organization is on record as being for the kind of legislation that Senator Fowler and I are for with respect to private lands, the capital gains and the passive losses and the like.

Mr. TUTTLE. Certainly; one of the major emphasis of—and conclusions of the first paper that was developed by Jeff Olson was that a significant amount of attention had to be paid to private nonindustrial lands. This one of our untapped resources.

Chairman WYDEN. I appreciate that because I think it really highlights one of the questions on everybody's mind. Clearly if something like that goes forward, that is going to be an opportunity to harvest trees, but I think what we are hearing from environmental folks and industry people saying, "Yes; and we will have a chance to do it in more environmentally sound way, in a way that is more productive and responsible for the long term." That is essentially the view you all have taken?

Mr. TUTTLE. I think so. What amazes me out of a presentation and hearing like today's is that how much overlap there really is between all of the interests. I guess part of this mediation process that we need to be talking about is emphasizing those and that will help us to some of the other conclusions as well.

Chairman WYDEN. We are going to keep hunting for the promised land——

Mr. TUTTLE. Absolutely.

Chairman WYDEN [continuing]. Where there is a viable strong economy and we protect our treasures, and you all have been great, but Senator Fowler who has been cooped up in this hearing room——

Senator FOWLER. I cannot figure out how I can get a meal in Oregon.

Chairman WYDEN [continuing]. I would not give him time for breakfast. I have been telling him he is going to have salmon before the day is out, and Senator, thanks again.

Senator FOWLER. Thank you, Ron. Thank all of you. It has been an extremely informative hearing. Everyone was very thorough in their preparation which aids all of us and enables us to get back to you as we turn it over to all this staff to go through this testimony and write you some follow-up questions.

I do not think I can add to what Congressman Wyden said. The public purpose is to try to find some kind of reasonable balance to the competing interests and also to protect the resource that was initially God-given and which, unfortunately, as I said in my opening remarks, is not always viewed as a resource that has to be well managed if it is to be protected and insured for the future. Thank you, everybody, for coming.

[Whereupon at 1:10 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

6/30

HEARING STATEMENT
REP. RON WYDEN

SMALL BUSINESS SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES & ENERGY

WOOD PRODUCTS INDUSTRY COMPETITIVENESS AND THE THREE T'S: TAXES, TRADE AND TIMBER

JULY 8, 1989
PORTLAND, OREGON

Good morning, and welcome to a joint hearing of the House Small Business Subcommittee on Regulation, Business Opportunities & Energy, and the Senate Agriculture Subcommittee on Conservation and Forestry.

I am pleased and honored to share the dais, today, with my good friend from Georgia, Senator Wyche Fowler, Jr. Once upon a time, Senator Fowler and I served together in the U.S. House of Representatives, before his ascension to the Senate three years ago. He is an active and far-sighted legislator who has turned his considerable skills toward encouraging a stronger U.S. wood products industry. At the same time, Senator Fowler has a strong legislative record in preserving a sound woodlands environment.

As a key member of the Senate Agriculture Committee, he has abundant opportunities to do both. And I am very happy that today, Senator Fowler will get a chance to hear first-hand testimony from a number of Pacific Northwest residents who represent both the timber industry and the conservationist community on a number of top-tier issues effecting our western woodlands.

Today we're going to focus on the three T's of the wood products industry. These are (1) the taxation of private woodlands, (2) trade barriers that limit sales of our finished wood products within the Pacific Rim, and (3) public timber harvest levels. Together, these can make a life or death difference for many of our wood products mills.

Let's examine these three T's one-by-one.

Although our private woodlands have become increasingly important sources of raw material for our mills, the federal tax code changes in 1986 killed important incentives for private timber farming. Tax reforms of 1986 resulted in a loss of capital gains advantages, and that had particularly egregious effects on timber growers. And in a double-whammy, reform rules also ended normal business expense deductions for the non-industrial woodlot owner -- the mom-and-pop operators of the tree-farming industry.

19-939 0 - 89 - 3

It's 50 to 60 years in growing time before a timber farmer can cut trees and make a profit. Until the first mature tree is harvested, his money is literally rooted in the ground. During the interim, he runs all the risks of fire, pest-infestation and other fiber-reducing hazards that shadow timber growers large and small.

The lower capital gains rate was designed to encourage risky investments such as tree growing. And without those incentives, we've seen the bottom fall out of tree-growing real estate in Oregon.

A leading conservation group, the 1,000 Friends of Oregon, estimates that $200 million has been lost in the value of commercial tree-growing property in this state since 1986 alone-- all due to the elimination of the capital gains rate. That's a loss of about $10,000 for an averaged-sized, non-industrial tree farm. By the same token, their tax bills have doubled, or even quadrupled. It's a Catch-22. To pay those bills, some have been forced to sell more trees -- immature trees that they must sell at a discount. Timber property values go down, less raw material is available for mills, we lose jobs and our whole economy suffers.

The loss of normal expense deductions for small woodlot owners has been another hammer on the industry.

Already bludgeoned by the loss of capital gains -- small woodlot owners have also lost the ability to write-off expenses as diverse as a gallon of gasoline for a chainsaw, to the cost of a professional forester consultant. Growing trees in Oregon can take from 30 to 100 years, depending on species and location. Care of those trees costs an average of $20 per year, per acre. Killing maintenance cost deductions, over time, will be a serious, cumulative hardship on tree growers.

I believe that we are forcing many out of the tree growing business. Many other woodlands will be less intensively managed, and yields will decline. In either case, our wood products industry faces another long-term loss of raw material.

And it's no secret to Oregonians in 1989 that a loss of raw logs means a cut in timber industry jobs.

Senator Fowler and I have both introduced legislation to address these issues. Senator Fowler has authored a bill to return a lower capital gains rate for timber harvest profits. My bill would return deductibility of normal business expenses to small woodlot owners.

Today we have witnesses from both big and small timber, and from the environmental community, to discuss these tax issues as they effect northwest forests and forest industries.

Just as private woodlands have become an increasingly more important source of logs for manufacturers, foreign markets have become a dominant revenue source for some northwest timber product manufacturers -- our own Vanport Manufacturing Co. in Boring, Oregon is a case in point.

Yet we face a labyrinth of tariff and non-tariff barriers that cost of hundreds of millions of dollars in lost sales in the Pacific Rim. In Japan, alone, unrealized sales to the tune of $1.2 billion per year can be laid at the door of tariff and non-tariff barriers.

The Bush Administration recently toughened up, citing Japan as an unfair wood products trader under the Super 301 provisions of the Trade Act. This is our most aggressive market-opening tool and could eventually force retaliatory duties and quotas against Japanese imports.

I'm a free trader. I have resisted protectionist measures in the Congress. But I pushed President Bush hard to take this action against the Japanese because I believe that their crippling obstacles against U.S. wood products are obnoxious and well-documented. It costs Oregonians real jobs just as surely as a raw log shortage shuts down our mills.

I believe that this 301 filing against Japan will serve notice on all of our Pacific Rim trading partners -- notice that our government will no longer stand by and watch raw logs and jobs shipped overseas, while our finished products stay home because of export barriers.

We welcome, today, witnesses from both the legal and timber industry communities to comment on these recent trade actions, and to suggest what further steps may be needed to open up these vitally important Asian markets for our finished wood products.

Finally, there's no bigger issue facing the wood products industries and the environmental community as the debate over public timber harvest levels, and more specifically the logging of old growth forests. This debate will not end with a decision on Northern Spotted Owl habitat. I believe that eventually, timber and environmental interests must reach a compact that ensures both an environmentally sound forest and economic stability for timber dependent communities.

Today, we welcome witnesses from both camps to explore these issues with us.

Old Growth Forests Hearing
Portland, Oregon
Senator Wyche Fowler, Jr.
July 8, 1989

We are here to address a wide range of issues affecting the future of the ancient forests of the Western United States. Some of these issues originate in faraway places like Tokyo and Washington, DC. The tax treatment of timber and international trade issues have a major impact on the management of these magnificent and irreplacable forests.

Other issues that need addressing have their roots closer to home here in Oregon and the West. The harvesting plans developed by the Forest Service make a huge difference both to the survival of timber and mill industries, and to the sustainability of this entire forest resource, on which we all depend in many ways.

As with forests in my region, the Southeast, and throughout the rest of the country, we are going to have to find a better way to meet our country's need for timber, without endangering the other vital resources our woodlands provide -- cleaning our air and our water, maintaining biological diversity, protecting wildlife and fish populations, providing sporting and recreational opportunities that are becoming scarcer and scarcer for our people. Unfortunately, we have planned and managed so poorly in the past, on public and private lands, that these other needs can no longer be overlooked or counted on to take care of themselves.

The tax code revision of 1986, designed to eliminate unfair tax shelters for well-heeled investors, have had a disastrous effect on timber producers, especially our smaller tree farmers, at a time when the pressures on our forest resources are greater than they ever have been -- and we need to be encouraging the best possible management of our woodlands.

Less than three years later, the results are plain for all to see. We are harvesting more trees than we are planting. If we allow that to continue, that will indeed be a disaster, not just for tree farmers and environmentalists, but for loggers, mill owners, furniture makers, sportsmen, fishermen and anyone who simply enjoys the natural beauty of America's forests. That says nothing about the more forbidding prospects of global climate change and the loss of valuable plant and animal species.

Representative Wyden and I have both introduced bills to correct the misguided forestry policies created by tax reform. Mine would restore the capital gains treatment for timber. His would reinstate reasonable passive loss rules for tree farmers, that do not lump them together with real estate developers and investment bankers.

A second impediment to the wise management of our remaining Western old-growth forests centers on trade issues -- in particular the export

of raw logs to the Far East. This is one practice that is bad for all of us who have an interest in these forest issues. We sacrifice our jobs, our economy and our natural heritage -- all at the same time. The high prices Japan and other Asian countries pay for those logs will seem a paltry sum indeed when we have squandered all our old growth forests, and the economic returns and environmental benefits associated with them.

This practice of selling raw logs overseas -- without their being touched by a single American processor or manufacturer -- has gone on for decades. It could not be more clear that we need to reevaluate the policies that allow this plunder to continue -- even as we quarrel among ourselves over the scant resources that remain.

There are some who would like to blame the spotted owl for our problems. But that kind of demagoguery will not disguise the fact that short term greed and long term mismanagement have brought us to this pass. We have got to generate more jobs and value-added for the timber we do cut. And we cannot continue to let these raw-log exports push logging beyond sustainable levels.

So before we see any more bumper stickers about killing spotted owls, let's remember that the spotted owl is only the messenger. We may argue his right to exist, but we cannot assign him the responsibility for his shrinking habitat.

That, of course, introduces us to the most highly controverisal issue we could address, which is the degree of protection needed to save the remaining old growth forests of the West. One fact is beyond dispute: we have experienced a dramatic loss of ancient forestland in Oregon, Washington and California.

The Forest Service says harvests can increase without endangering this resource. Yet Forest Service estimates of remaining old growth are highly questionable at best. It has ignored the advice of its own scientific experts. It has counted in its inventories old growth already scheduled to be cut.

I am no auditor to resolve these discrepancies. But I do know one thing: the development of a forest plan is no rhetorical exercise. We have to understand the real situation we are facing. We have to know how much old growth remains and the rate at which it is disappearing. Because once the ancient forests are depleted, no fancy Forest Service bookkeeping method will bring them back.

We cannot jeopardize this resource while we quibble over calculations definitions. That is why a credible Forest Service inventory of old growth forests, as mandated by Congress, must be an urgent priority. In the meantime, we need to get away from this fixation on spotted owl habitat and examine other sources that can supply our timber needs.

That is why we need to focus on improved forest management, to create more sustainable supplies, on private lands as well as in our National Forests. I have said, and I will repeat, that I am not for letting

those companies who have wasted their own woodland resources into our National Forests and old-growth stands -- to make up for their shortsightedness at public expense.

I will leave all the biological, environmental, economic and ethical arguments to the experts. But one thing I know for sure, that no monoculture tree farm devised by man can ever replace the scenic beauty and wonder of these old growth forests. If we allow to vanish from the earth the work it took nature thousands of years to create, and billions of years to perfect, then we will have violated not only the precepts of public service, but the biblical precepts of stewardship that you will find by opening the book to page one.

I suggest we all put our differences aside and plan accordingly. I am looking forward to hearing from our witnesses their thoughts on how that can be done.

NEIL GOLDSCHMIDT
GOVERNOR

Forestry Department
OFFICE OF STATE FORESTER
2600 STATE STREET, SALEM, OREGON 97310 PHONE 378-2560

House Committee On Small Business
Subcommittee on Regulation, Business Opportunities, and Energy
July 8, 1989
Testimony
By
James E. Brown
State Forester
Oregon Department of Forestry

Thank you for inviting me to share with you some of my thoughts on the forests of Oregon. There is nothing more important to Oregon than its forests, which provides jobs (38 percent of the base economy, 18 percent agricultural, and three percent tourism), tax revenues, timber, beauty, water, fisheries, and wildlife.

Our forests provide all the things that make Oregon, Oregon.

Attachment 1, shows Oregon's basic employment in 1985. You'll note that lumber, wood and paper combined make up 38 percent of Oregon's basic economy.

Attachment 2, shows that Oregon communities are highly dependent on lumber and wood products, particularly rural Oregon.

Attachment 3, shows Oregon's total employment and harvest of timber. You will note that when the harvest is down, lumber and wood employment is down and hense total employment in the state is down.

Attachment 4, shows employment in Oregon's wood products industry for the years 1978 to 1988. You will note that in 1988, 77,400 people were employed in the wood products industry. It has been declining since 1978, as a result of productivity improvement in mills, and some mill closures. However, the wood products industry will remain a key part of Oregon's economy.

Attachment 5, shows the ownership of Oregon's forests lands in 1988. You can see that the Forest Service and the Bureau of Land Management, combined own and management 58 percent of the forest land in this state. As a result, forest management policies by the federal government have a dramatic impact on timber supply and Oregon's forests.

Attachment 6, shows forest land by age-class in Oregon. It shows for all ownerships the number of acres by age-class. You can see that most of the older timber, that is timber of harvestable age, resides primarily on federal lands and that most of the younger timber is on privates lands. What this chart really says is, if the Forest Service and BLM restrict the harvest of

older timber, than the total available timber for harvest in this state will decline, in the near term. The amount of timber available for harvest will increase in 30 years as the forest matures.

Attachment 7, shows Oregon's timber harvest from private forest lands for 1977 to 1987, by ownership category. You can see that the amount of harvest in this state has averaged about 7 1/2 billion board feet, per year. The interesting thing to note on this chart, is how the harvest on each landownership class has been relatively stable over the 11-year period shown. That is to say in effect, each ownership has been operating on sustained yield basis.

Attachment 8, shows the actual and projected timber harvest in Oregon from 1945 until the year 2015. The projections show that Oregon under current policies, Oregon's forests can provide a sustained yield of about 7.5 billion board feet, per year.

Attachment 9, is what I have titled "A Forest Management Primer". It shows in algebraic terms the key factors determining the forest products and forest resources and benefits from our forests. The formula shows that forest products, including recreation, wildlife, fish, timber and open space, and forest resources, including soil, air and water, are dependent upon three things: (1) management that we apply to the land, (2) species of trees that are growing upon the land, and (3) the amount of land that is available for forestry. I have put land with a power of three, to indicate that the amount of land available is the most important factor or decision to be made with respect to forestry. Without a forest land base we will not get the goods and services we all want. The tree species that we have growing on that land is the second most important factor with respect to the products and resources. Management, while important, is less important then the land available or the tree species growing on it. What this really says to the policy maker, is that land allocation is the key policy issue that we must face.

As you are well aware, there is a significant debate going on at the national level, with respect to federal forest land management, the policy question being raised is "how we should management our national forests and for what purpose". In a reprinting of Gifford Pinchot's book "Breaking New Ground" George Frampton Jr., President of the Wilderness Society, wrote in the introduction the following statement; "...a very different vision has begun to be articulated for their [national forest] future management philosophy" "This version holds that public forest land ought to be managed primarily to provide those public benefits that private land is never going to provide for in a market economy: recreation, clean water, biological diversity, scientific study, protection of fragile natural ecosystems, and preservation of wilderness." In contrast the forest industry wants to see stable timber supplies while protecting other resource values. I think the key question that has to be answered is "what does the public of both Oregon and the nation want from our forests?" A number of public opinion polls, both nationally and in Oregon, have shown that the public wants both jobs and a quality environment. The question for policy makers is how do we deliver on both those values. The issue being faced today, with respect to national forests, is will they be used to provide commodity or noncommodity goods? If they will be used to provide both commodity and noncommodity goods, then what is the appropriate balance? That balance must be decided through land allocation and management practices applied to the land.

My thesis is, that good forest management can provide commodities and a quality environment for Oregonians and the nation to use and enjoy. To achieve this balance the State of Oregon, under the leadership of the Governor's office is evaluating and commenting on each national forest environmental impact statement. We are then constructing state alternatives for each national forest. This work is done based on public meetings, visits with local concerned citizens and on-the-ground field trips to look at the issues. The solution in providing both commodity and noncommodity values lies in both certainty of timber supply and certainty of environmental protection. The elements of the solutions include, allocating the land base for appropriate uses, applying management practices to the land to provide the goods and services that we want, protecting the resource from fire, insect and disease and protecting the forests environmentally, providing the information and technology needed to manage the land and expanding the resource. The topics that you are going to discuss today, private land forest taxation, trade for the Pacific Rim, and old-growth all have significant bearing on maintaining timber supplies and thus our economy, but also in providing us an enjoyable place to live and work.

While federal forest land management policies are very important to Oregon, we are also concerned about private forest land management. Private forest lands constitute 37 percent of the forest land in Oregon; 21 percent is owned by the forest industry and 16 percent is owned by nonindustrial private forest landowners.

Nonindustrial private forest lands collectively own about 3.5 million acres. This is 14 percent of the total commerical forest land and 38 percent of the privately owned forest land. They own about 12 percent of Oregon's total sawtimber inventory. Currently, the harvest is about 4 percent of the volume harvest each year. With the potential decline in forest harvests this landownership category will increase significantly in importance for future timber supply.

Lack of cash flow is a principal reason nonindustrial private landowners do not more actively manage their properties. Loss of capital gains and the passive loss rule are seen by many nonindustrial owners as key disincentives to management. Both provisions reduce cash flow and thus the landowners ability to invest in the land. Capital gains should be reinstated and the passive loss rule should be repealed.

Other productivity enhancement efforts Congress should consider include reauthorizing the 1990 Farm Bill, specifically the Agricultural Conservation Program; fully funding the Forestry Incentives Program at $15 million; and funding the new stewardship program. All of these federal programs are aimed at improving landowner cash flow for making significant investments in forestry. These investments will provide not only timber, but will also provide clean water, reduce soil eroison, and fish and wildlife habitat.

JEB:cn
Attachments
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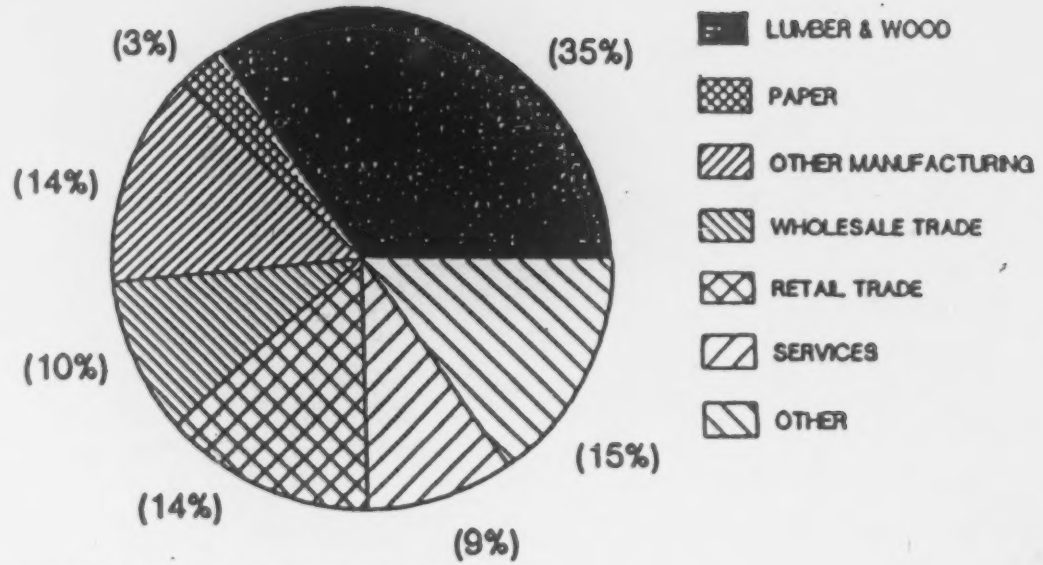
OREGON'S BASIC EMPLOYMENT, 1985
(PRIVATE EXPORT RELATED)

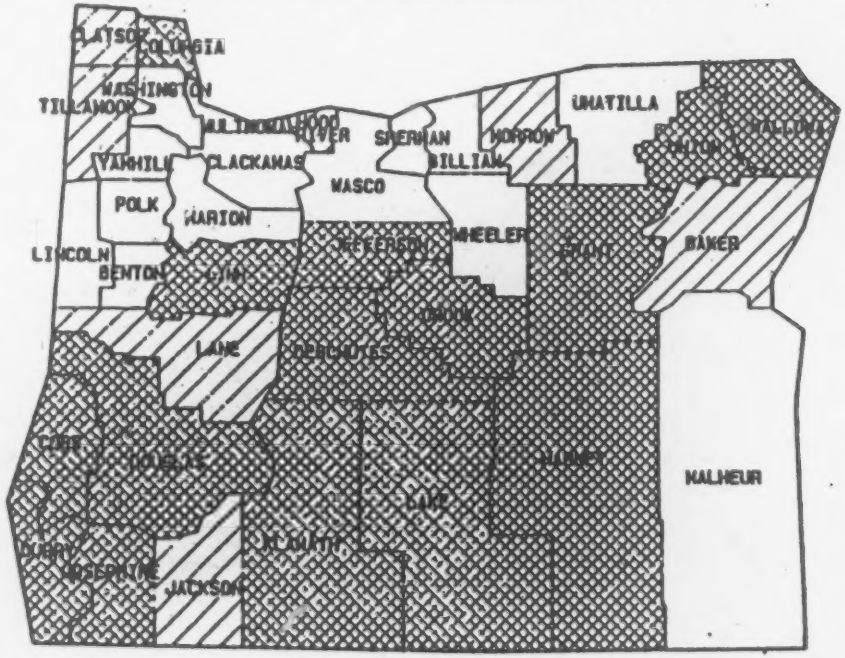


SOURCE: OREGON DEPARTMENT OF HUMAN RESOURCES

Attachment 1

DEPENDENCE OF OREGON COUNTIES ON LUMBER AND WOOD PRODUCTS EMPLOYMENT--1987

DEPENDENCE = LUMBER & WOOD EMPLOYMENT/TOTAL EMPLOYMENT



DEPENDENCE < 6%

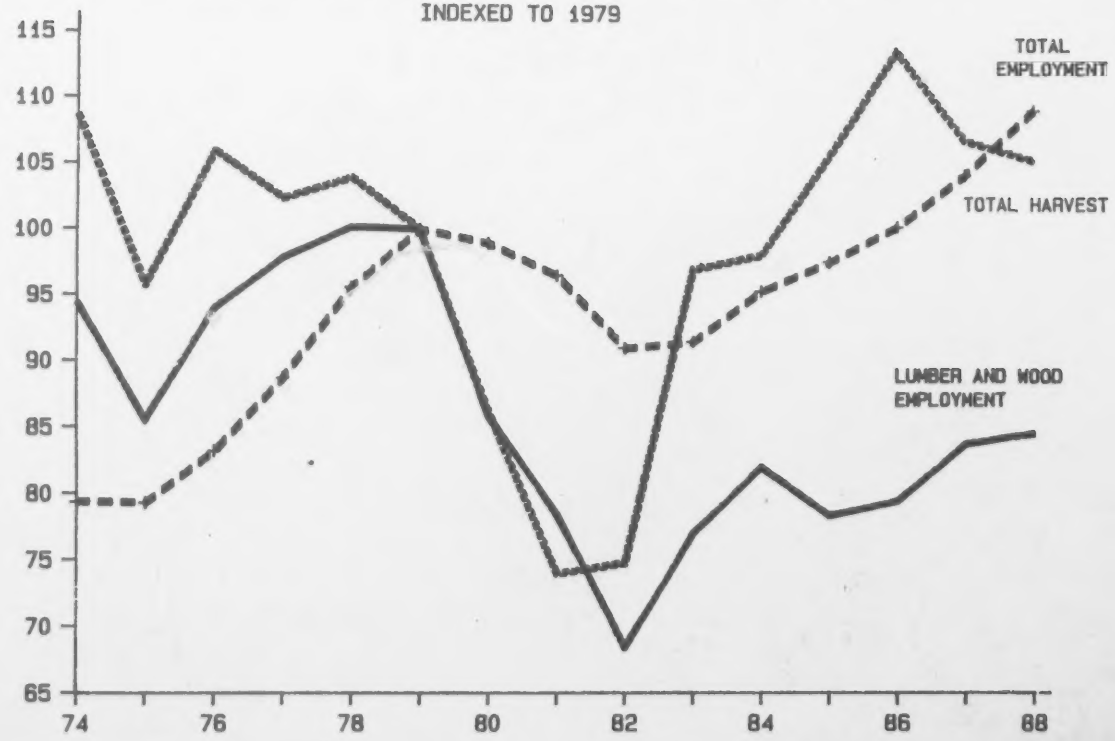
DEPENDENCE ≥ 6%, BUT ≤ 12%

DEPENDENCE > 12%

Attachment 2

OREGON EMPLOYMENT AND HARVEST

INDEXED TO 1979



harvempi
3/37/89

Note: 1988 Total Harvest estimated

Attachment 3

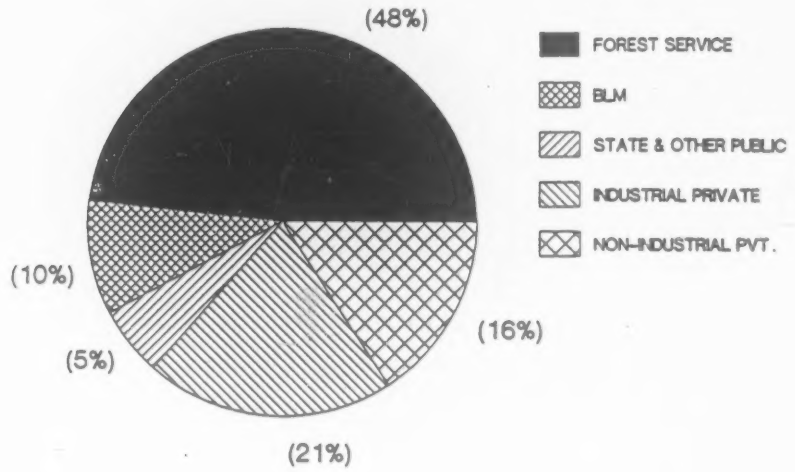
EMPLOYMENT IN OREGON'S WOOD PRODUCTS INDUSTRY
(LUMBER AND WOOD PRODUCTS, PAPER AND ALLIED PRODUCTS)
1978-1988

YEAR	TOTAL EMPLOYED	LUMBER AND WOOD PRODUCTS	PAPER AND ALLIED PRODUCTS
1978	90.2	81.4	8.8
1979	91.0	81.2	9.8
1980	79.9	69.5	10.4
1981	74.1	63.8	10.3
1982	65.2	55.6	9.6
1983	71.9	62.6	9.3
1984	75.7	66.7	9.0
1985	72.7	63.6	9.1
1986	72.9	63.9	9.0
1987	76.6	67.4	9.2
1988	77.4	68.7	8.7

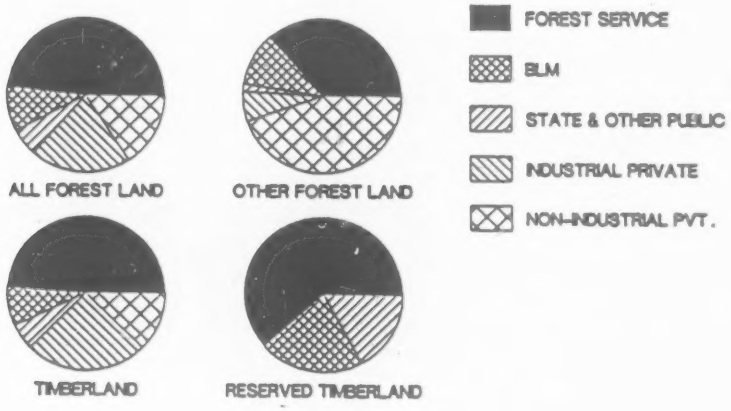
Attachment 4

Attachment 5

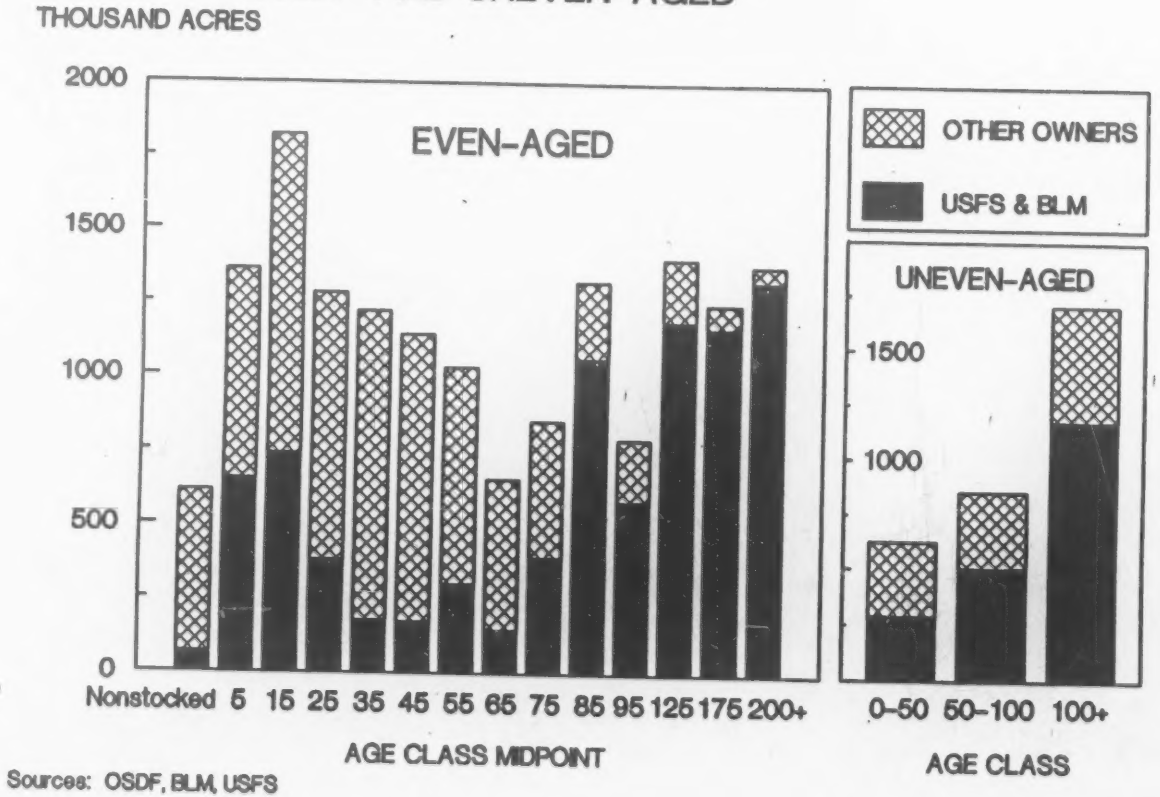
OWNERSHIP OF OREGON'S FOREST LAND IN 1988



OREGON'S FOREST LAND BY USE IN 1988



TIMBERLAND BY AGE CLASS IN OREGON
EVEN- AND UNEVEN-AGED



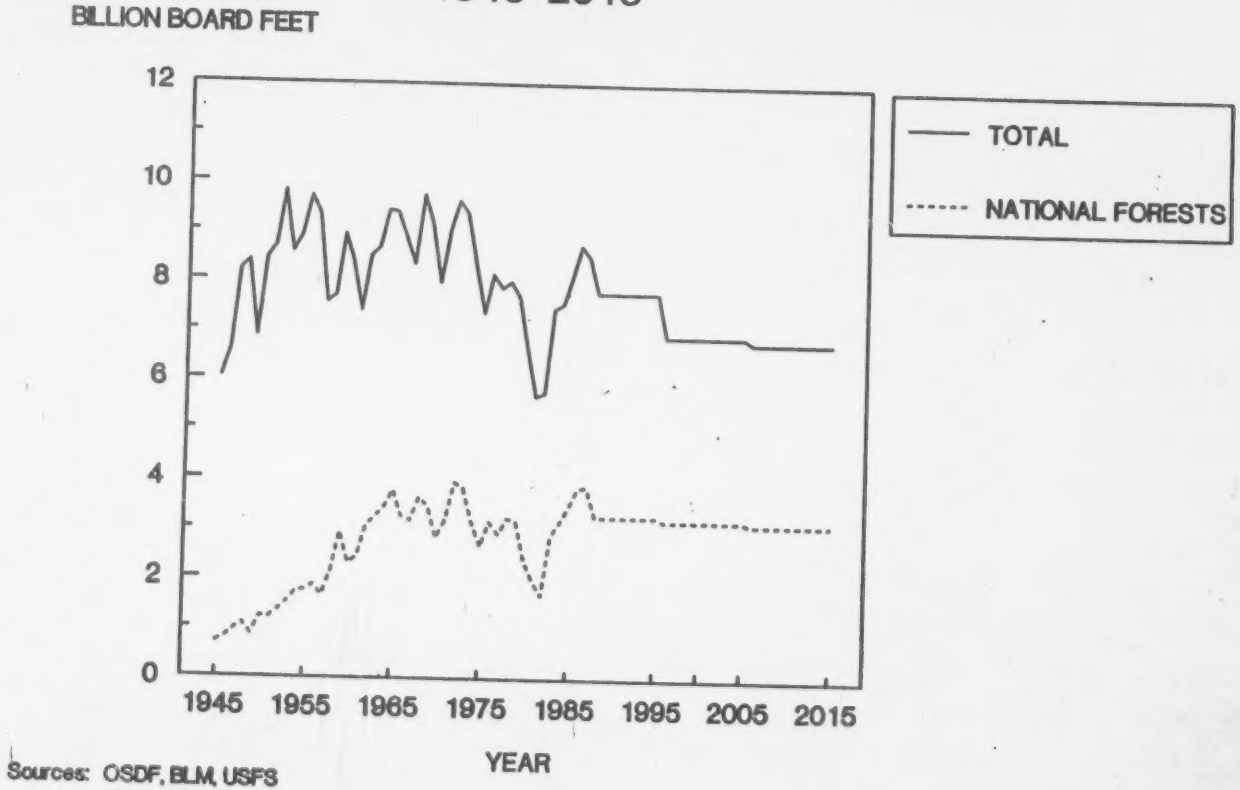
Sources: OSDF, BLM, USFS

OREGON TIMBER HARVEST, 1977-1987

YEAR	FOREST INDUSTRY	OTHER PRIVATE	NATIONAL FOREST	BLM	BIA	STATE	OTHER PUBLIC	TOTALS
1977	3,137	453	2,913	1,021	115	228	11	7,876
1978	3,163	387	3,232	837	121	235	22	7,997
1979	2,953	255	3,167	956	111	223	29	7,694
1980	2,930	204	2,399	979	105	186	19	6,639
1981	2,522	180	1,981	677	95	216	24	5,695
1982	3,221	219	1,688	312	126	175	17	5,758
1983	3,124	249	2,902	789	112	257	31	7,464
1984	2,768	310	3,164	920	101	249	38	7,550
1985	3,009	323	3,480	891	121	268	34	3,127
1986	3,006	428	3,850	1,042	104	225	28	8,743
1987	2,791	490	3,451	1,115	117	199	52	8,215
1988			3,916	1,703				

Attachment 7

ACTUAL & PROJECTED TIMBER HARVESTS IN OREGON
1945-2015



Sources: OSDF, BLM, USFS
Timber for Oregon's Tomorrow

Attachment 8

FOREST MANAGEMENT PRIMER

FOREST PRODUCTS	FOREST RESOURCES = A + B (MANAGEMENT) + C (TREES)^2 + D (LAND)^3
RECREATION	SOIL
WILDLIFE	AIR
FISH	WATER
TIMBER	
OPEN SPACE	

ATTACHMENT 9

ILENE L. WALDORF

LICENSED TAX CONSULTANT
118C Engle Avenue
P.O. Box 214
Molalla, Oregon 97038
(503) 829-3181

July 8, 1989

To: Representative Ron Wyden
Senator Wyche Fowler, Jr.

From: Ilene Waldorf

Thank you for inviting me to share my views regarding the effect of federal tax policy on private woodland productivity. The loss of the capital gain exclusion and the potential inability to deduct annual operating expenses were a devastating blow to the nation's tree farmers.

I am a self-employed accountant in Molalla, Oregon and have been involved in the timber industry all my life. My parents bought their first cut over land in 1951 and, through much dedication and hard work, have developed a well-managed, beautiful tree farm. I live on our tree farm and would like to someday take over the management of the property I have grown to love. However, due to ever increasing rules, regulations and tax burdens it is difficult to see any economic sense in continuing to raise timber.

The 20,000 small woodland owners of Oregon own and manage approximately 18% or 4,500,000 acres of the commercial forest land of Oregon. These owners are a significant, yet often over-looked, force in the socio-economic fabric of the state. Small woodland owners nationally produce 60% of the timber for our lumber and paper product needs.

It would be much easier if these people and their lands fell into a neat and tidy package which could be easily described. Instead, they range in age from early twenties to late nineties, with careers ranging from full-time professionals who farm their lands on a part-time basis to full-time tree farmers. The land they farm ranges from newly planted seedlings to beautiful stands of mature trees. The things these people do have in common are a love of the land and the trees they are raising, and the dedication it takes to work your fingers to the bone knowing full well you may never live to see the day when the trees you are planting will be harvested.

The Tax Reform Act of 1986 did little to simplify the lives of small woodland owners. In fact, it only served to remove any remaining economic incentive for practicing sound forestry.

The elimination of the 60% exclusion for capital gains income increased the tax burden on small woodland owners by amounts ranging from 86% to 179%. (I have attached several case studies which will illustrate the tax increase). It is very difficult to absorb tax increases like these when the price

of timber has not increased accordingly, nor have the expenses to raise and harvest timber decreased.

If we are to harvest timber we must pay 40% to 50% of our gross harvest income to the logger to deliver our logs to a market. In addition severance taxes will take another 6-1/2%. Add to these costs the property taxes, interest and other normal yearly expenses such as fire, brush and insect control, road upkeep and animal damage; then take an additional 28% for Federal income taxes (plus 9% for State of Oregon income tax) and what do you have left?

I have assumed here that raising timber is a "sure bet". Growing trees is a risky, long-term business. When a tree farmer plants a seedling there is no way to know whether that tree will be destroyed by fire, disease or competing vegetation. Our government must have realized the complexities of practicing forestry, the risks involved and the need to provide economic incentives when in 1944 tax laws were passed in the form of capital gain treatment for timber. Now, over 40 years later, when many tree farmers are about to realize an income - possibly a sustained yield - from their previously cut over lands, the promise to tax timber fairly has been broken.

As if to add insult to injury, Congress also passed the Passive Activity Loss Rules which provide that a small woodland owner cannot deduct his annual costs of managing his timberland unless he can prove that he "materially participates" in the operation of his tree farm.

As I mentioned before, many small woodland owners operate their tree farms on a part-time basis while holding down other full-time jobs. In many cases it is essential to hire outside help to do much of the work; such as planting, brush control, harvesting, etc. There may be years when the hours of personal time spent on the tree farm will far exceed the required 500 hours, but there may be many other years when a tree farmer will be hard pressed to show 100 hours of participation, and it is entirely possible that employees or sub-contractors will have worked more hours on the farm than the small woodland owner. (Please see attached testimony given on PALS subject). It is important to remember that even though income from the tree farm is periodic, effective management dictates annual cash investments. It seems ridiculous to expect a tree farmer to invest 499 hours of personal time and thousands of dollars in annual management expenses and yet not allow him to use those expenses to offset the very income (Whether it be W-2, interest or non-passive activity income) which generated the cash used to pay the tree farm management costs.

Many dedicated tree farmers are extremely discouraged. They feel that without a capital gain exclusion and with ever

increasing stipulations on the deductability of their expenses, there is little incentive to continue raising timber. It is important to realize that often times tree farmers have borrowed money to finance their operation and although the tax laws have made tree farming inequitable the obligations have not disappeared. It has become increasingly difficult to sell timberland with stricter land use and zoning regulations, and, lets face it, the value of any asset reflects expected future cash flows -who in their right mind would want to become a small non-industrial timberland owner in the present tax environment?

It is much too soon to tell exactly what will happen to our private timberlands, but it is expected that investments will flow out of the forests and into other, shorter term opportunities. Those who do hold onto their timberland may choose to practice accidental forestry with a minimum amount of time and money spent on managing their timber. More, immature timber will need to be cut to pay ever increasing income taxes. These lands are not ready to cut. They were generated in the 50's and 60's and need another 15 years to reach maturity. A 30 year old tree will double in volume in 7 to 10 years. A 40 year old tree will double again in volume in another 10 years, and because of the higher quality of wood, will also double in value. Sadly, as more of the older, existing small woodland owners leave their tree farms there will be fewer young people to take their places. It seems we have gone back in time to the early 1900's when our timber was rapidly depleted and "tree farming" and "sustained yield" were brand new ideas. The people of the United States must decide who they want to own the nation's timberlands. I will guarantee that the small non-industrial timberland owner will take more interest in his land and do a better job of managing his timber, if given the chance, than will a large absentee landowner.

You asked whether the federal government should undertake other productivity enhancement programs to ensure sufficient timber volumes from private lands; PLEASE leave us alone so we can manage our timberlands effectively. We are already over-regulated, over-worked and over-taxed. Forest land decisions must be made by those of us who are knowledgable timberland managers, not by lawyers and politicians.

Recovery of a fair tax system for long-term forest investments is the highest priority issue of small woodland owners. We need to be returned to the system under which our lands were originally planted and we need to be given a guarantee that the system will not be changed each time Congress needs more revenue. We are aware that there is much talk of redoing the method by which estates are taxed. If you raise the estate tax on timberlands, what do you suppose will happen? More immature timber will be cut to pay the inheritance tax. The land may be planted back to trees, but

will there be money or enthusiasm left over at that point to properly manage the trees as they grow?

WE NEED STABILITY. We need a renewed committment from government that the rules of the game will not be changed at every turn of the road. In exchange we will continue to produce beautiful, productive timberlands which will serve to benefit all.

ILENE L. WALDORF

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The following is a presentation given to the Forest Industries Committee on Timber Valuation and Taxation Passive Loss Seminar in Portland, Oregon on April 19, 1988 by Ilene Waldorf. Ilene is a self-employed accountant in Molalla, Oregon. She has been involved in the timber industry all her life and is now specializing in timber tax treatment of small tree farmers.

Tax Reform - Simplification? Fairness? Revenue Neutrality? I think not! Especially as it applies to the tree farmer. And now, the proposed regulations on material participation threaten to complicate our lives even further!

I have a small tax practice in Molalla, Oregon. I would consider my clients to be quite representative of middle America; in fact, had I believed everything I was told prior to the passage of the Tax Reform Act of 1986, I might have thought my clientele would benefit from the many changes being enacted. None of my clients were "removed from the tax roles", few experienced a decrease in their income taxes, most experienced an increase, and those involved in tree farming experienced dramatic increases ranging from 86% to 179%.

In our quest to regain some type of Capital Gain exclusion I have heard all kinds of statistics quoted by those opposing a break for capital gains, but the one that makes my blood boil is that, "more than 50% of all capital gains are realized by taxpayers in the top 1%" - the wealthy. 65% of my clients realize capital gains on sales of stocks, property, businesses, timber, etc. Certainly, if 50% of the capital gains go to upper income people the other 50% go to those in lower brackets. If you were going to talk fairness, it shouldn't matter whether you are rich or poor when it come to how capital gains are taxed.

I'm sure we can all understand the need to eliminate the abusive tax shelter - this is where the passive -vs- active participation issue came from isn't it? I wonder whether Congress truly intended to catch small tree farmers in the cross fire?!?

Share with me a scenario:

A young man comes to me for assistance in preparing his personal income tax return. He works at a job in Portland and has always done his own income tax return. He recently purchased a 100 acre parcel of small timber and brush near my home, and it seems that most evenings I see him working till the last rays of sun have faded, and he's always out "hard at

it" on Saturdays.

He hands me a list of income and expenses from his tree farm for the year, and it is quite obvious he has realized a sizeable loss on his operation this year. I begin asking him questions:

1) "Did you participate in your farm for more than 500 hours this year?" - "Well...probably not."

2) "Did your participation constitute substantially all participation in the activity of ALL individuals?" - "Let's see...I hired my accountant, some brush control, a kid to do some interplanting...No..."

3) "Did you participate in the activity for more than 100 hours and this participation is not less than the participation of any other individual?" - "You're kidding! My employee...No..."

4) "Is this activity a significant participation activity?" - "No"

5) "Did you participate during 5 of the 10 tax years immediately preceding the tax year?" - "I just bought the farm."

6) "Is this a personal service activity?" - "No"

7) "Based on the facts and circumstances test, did you participate in the activity on a regular, continuous, and substantial basis during the tax year?" - "What's regular? What's continuous? What's substantial?"

After we finish, I conclude that he is not a material participant in his tree farm and therefore can not use the tree farm loss to offset his W-2 income...even though he payed for those expenditures with money from that same W-2 income.

I tell him he'll need to carry forward his losses to apply against income from his passive activities, and he looks at me like I've lost my mind. He says, "Why I don't really expect any type of sizeable income from this tree farm for 40 to 60 years. If I can't deduct my losses, how can I afford to own and manage this timber land?"

I have heard many hard core tree farmers say they will quit. They feel without a capital gain exclusion and with ever increasing stipulations on the deductability of their expenses there is no economic incentive to continue raising timber. The promise given over 40 years ago by our government to tax timber fairly has been broken. And, sadly, it is

just at the time when many tree farmers are about to realize an income - possibly a sustained yield - from their tree farms which were developed from previously cut over lands.

Is the tree farmer who owns and manages 100 acres of land, who spends 99 hours of time on his tree farm, any less of an active business man than the tree farmer who owns 10,000 acres of land, spending hundreds of hours working his tree farm?

What constitutes material participation? Do the countless hours spent pondering timber taxation and tax reform in the shower, doing dishes, driving down the road, in bed during sleepless nights... count towards my 500 hours of participation?

I wonder, if no one is raising timber, where will Congress and the IRS get paper to write their laws and regulations?

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I have attached 4 actual case comparisons between pre-1986 Tax Reform and post-1986 Tax Reform tax liabilities.

The story behind the numbers:

1. Tree farm income is periodic. It takes an average of 9 years to raise a Christmas tree and 50 years to raise a tree for sawtimber.

2. Reinvestment from the proceeds of sales are required to establish the next crop. It costs approximately $200 per acre to replant timber (Required by Oregon State law) and $800 per acre to replant Christmas trees.

3. The following is a list of tree farm expenses which are incurred on an annual basis:
   a. Land mortgage
   b. Property taxes
   c. Insurance
   d. Equipment repair, maintenance and replacement
   e. Insect, disease, vegetation and animal control
   f. Vandalism
   g. Tree thinning and timber stand improvement
   h. Hired labor and accompanying payroll taxes
   i. Road repair and maintenance
   j. Interest on investment
   k. Government paperwork

Young tree farmer with no family:

	Total Income	Taxable 1986	Taxable 1987	Taxable 1988
Interest Inc	$ -197	$ 197	$ 197	$ 197
Sch C-Business loss	(965)	(965)	(965)	(965)
Capital Gain	65,678	26,271	65,678	65,678
Farm Loss	(26,813)	(26,813)	(26,813)	(26,813)
Adj Gross Income	38,097	(1,310)	38,097	38,097
ZBA/Std Ded		(2,480)	(2,540)	(3,000)
Exemptions		(1,080)	(1,900)	(1,950)
Taxable Income		-0-	33,657	33,147
Regular Tax		-0-	7,168	6,961
Alternative Min Tax		1,619	-0-	-0-
Total Federal Tax		1,619	7,168	6,961
Increase in Federal Tax over 1986			5,549	5,342
Percent of Increase			343%	330%

Young married couple with 2 children:

	Total Income	Taxable 1986	Taxable 1987	Taxable 1988
Interest Inc	$ 655	$ 655	$ 655	$ 655
Capital Gain	126.787	50,715	126,787	126,787
Farm Loss	(46,734)	(46,734)	(46,734)	(46,734)
Adj Gross Income	80,708	4,636	80,708	80,708
Itemized Ded		(9,260)	(7,806)	(7,482)
Exemptions		(4,320)	(7,600)	(7,800)
Taxable Income		-0-	65,302	65,426
Regular Tax		-0-	14,525	14,452
Alternative Min Tax		6,911	-0-	-0-
Total Federal Tax		6,911	14,525	14,452
Increase in Federal Tax over 1986			7,614	7,541
Percent of Increase			110%	109%

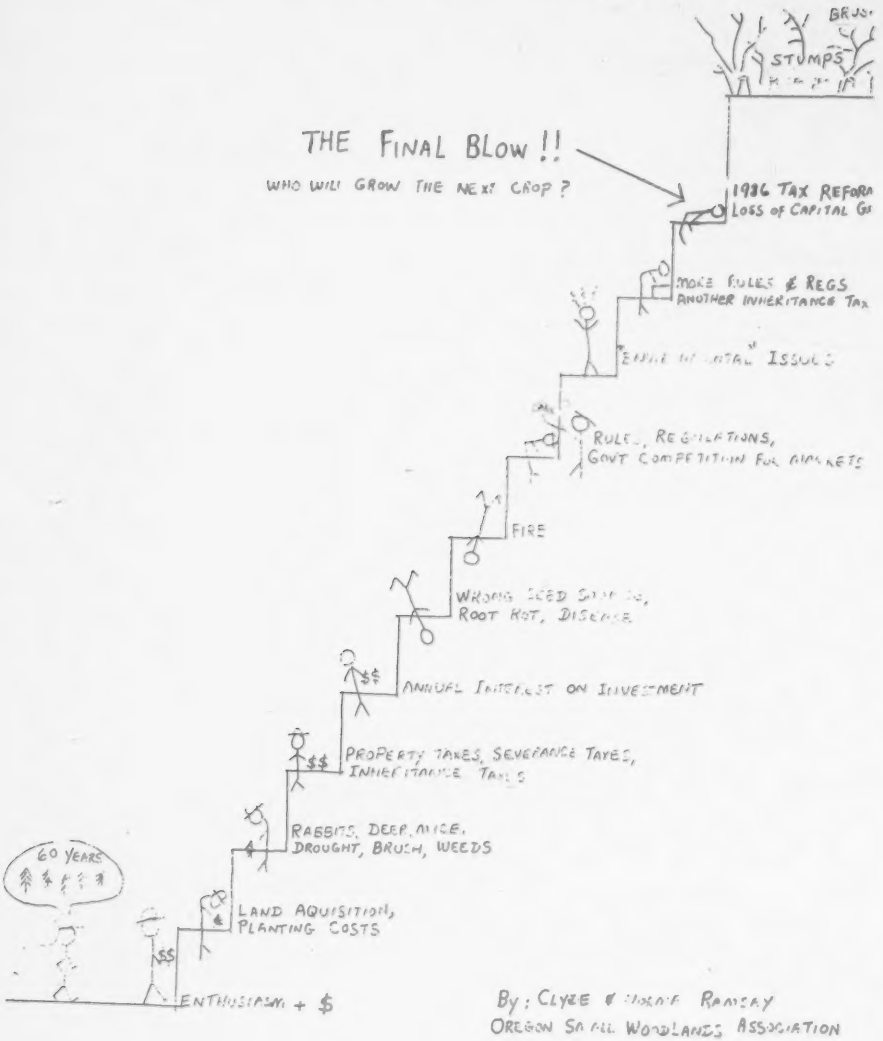
Retired couple, over 65, drawing social security:

	Total Income	Taxable 1986	Taxable 1987	Taxable 1988
Interest Inc	$ 46,838	$ 46,838	$ 46,838	$ 46,838
Sch C-Business loss	(6,750)	(6,750)	(6,750)	(6,750)
Social Security	11,784	5,892	5,892	5,892
Other Income	2,025	2,025	2,025	2,025
Capital Gain	40,006	16,002	40,006	40,006
Farm Loss	(5,915)	(5,915)	(5,915)	(5,915)
Adj Gross Income	87,988	58,092	82,096	82,096
Itemized Ded		(18,691)	(22,361)	(22,361)
Exemptions		(4,320)	(3,800)	(3,900)
Taxable Income		35,081	55,935	55,835
Regular Tax		5,955	11,902	11,766
Alternative Min Tax		-0-	-0-	-0-
Total Federal Tax		5,955	11,902	11,766
Increase in Federal Tax over 1986			5,947	5,811
Percent of Increase			100%	98%

Retired couple, over 65, drawing social security:

	Total Income	Taxable 1986	Taxable 1987	Taxable 1988
Interest Inc	$ 33,235	$ 33,235	$ 33,235	$ 33,235
Social Security	7,184	33	3,592	3,592
Capital Gain	53,376	21,350	53,376	53,376
Farm Loss	(26,112)	(26,112)	(26,112)	(26,112)
Adj Gross Income	67,683	28,506	64,091	64,091
ZBA/Std Ded			(6,200)	(6,200)
Exemptions		(4,320)	(3,800)	(3,900)
Taxable Income		24,186	54,091	53,991
Regular Tax		3,217	11,385	11,250
Alternative Min Tax		889	-0-	-0-
Total Federal Tax		4,106	11,385	11,250
Increase in Federal Tax over 1986			7,279	7,144
Percent of Increase			177%	174%

TREE FARMING - BLOW BY BLOW



By: CLYDE & DORIS RAMSAY
OREGON SMALL WOODLANDS ASSOCIATION

POLICY STATEMENT

OREGON SMALL WOODLANDS ASSOCIATION

INTRODUCTION

The small woodland owners of Oregon own and manage 18% or 4,500,000 acres of the commercial forest land of Oregon. These owners are a significant force in the socio-economic fabric of the state.

The following policy statement outlines the concerns and responsibilities basic to the owner-operators of small woodlands.

BASIC CONCEPTS

Private ownership of property is integral to the American economic system. This privilege must be protected from infringement by overly burdensome tax laws or other inequities.

The free choice of land management practices is inherent to ownership as manifested in free enterprise. This choice must not be limited, except as established by law, so as to protect the public interest.

Woodland ownership is a trust which implies an obligation to preserve the quality of the soil. It is also a commitment to keep the land productive. The public has a reciprocal trust to avoid legislative actions that would discourage good woodland management or abridge the rights of free enterprise. The Small Woodland Association must be alert and respond to situations in which damaging proposals are advanced.

Woodlands, under careful management, can yield significant owner dividends and satisfaction. Benefits to the public interest can be watershed protection, wildlife habitat, esthetic values and products to support widespread community economy.

Small woodland ownerships do not necessarily have tax advantages and the regular cash flow of industrial ownerships. Vision, dedication and strong initiative over extended periods will be the hallmark of the successful small woodland operation. Incentive programs must be available to encourage woodland owners in reforestation, stand improvement and cultural work.

The Association anticipates that demand will exceed wood fiber production in the next twenty years. This will stimulate favorable markets for all kinds of forest products. It is imperative that woodland owners prepare now for the increasing demand by adopting management practices designed to maximize growth on every acre. Profitability in woodland management depends upon observing competitive business management practices. Cooperative marketing appears to have merit as a business management practice.

Woodland owners profit from advice and encouragement from others who have similar problems. These small woodland managers pledge to be of mutual assistance to each other in county associations as well as intra-county relations.

Extension foresters and service foresters furnish valuable assistance in management planning and provide updated technological training. The Association approves the system which makes these professionals available and will continue to support them in adequate numbers and financing.

Small woodland owners should be active and visible individually and collectively in matters involving, but not limited to, natural resource managment on public as well as private ownerships. In this respect public affairs committees should be formed and become active on both state and county levels. The state association should coordinate matters of broad general concern. County associations should provide direct contact with local news media, schools, county commisions, conservation clubs, chambers of commerce, etc.

State and county associations shall periodically evaluate their positions on this policy statement and make suitable program adjustments to current technical, social and political trends.

PURPOSE

The purpose of the Oregon Small Woodland Association shall be:

1. To stimulate better forestry practices on non-industrial, privately owned forest lands in Oregon.

2. To promote understanding by the general public regarding small woodland owner forestry problems and potential public benefits.

3. To disseminate advanced technological information from every source for the improvement of private forestry ownership, management, protection and use.

4. To serve as a forum for the exchange and debate of ideas and experiences relating to forest land management and product marketing.

5. To cooperate with public and private agencies or groups to achieve excellence in forest protection, silvicultural practices and land use planning.

6. To insure that basic constitutional property rights shall be respected within the concept of free enterprise.

7. To work diligently for a business and tax climate which will enable tree growing to flourish and prosper.

8. To contribute a coordinated and representative voice at county, state and federal levels in all matters concerning forestry.

CRITICAL MATTERS OF CONCERN

1. Protection by law enforcement agencies to reduce loss by theft and vandalism.

2. Land use planning with strong local influence.

3. Forestry extension and service forestry programs.

4. Elimination, reduction and/or revision of inheritance taxes to make it possible for forest properties to be passed on within families from generation to generation.

5. Research and industrial efforts to salvage all forest wastes and convert them to useful products, including energy. This applies to forest thinnings as well as logging residue.

6. The Oregon Forest Practices Act. Especially the feature that rules are made by regional citizens committees and that it be administered only by the State Forester.

7. Constant improvement in growth and quality characteristics of commercial tree species through a broad application of the genetic tree improvement program. Research should be accelerated and proven technology made available in practical, useable form.

8. Forest management practices that preserve soil fertility, stability and condition.

9. The freedom to use chemicals as an economic, time saving tool when they have been proven safe.

AREAS OF CONTINUING INTEREST AND INVOLVEMENT

1. Legal recourse to hold plaintiff liable for payment of damages in cases of failed injunctive proceedings.

2. Development of business management systems, including computer programs, in establishing investment base, organization structure and operating procedures.

3. Ways to emphasize and publicize the importance of woodland ownership, increase active membership and promote increased commercial productivity.

4. Possible affiliation of Oregon tree farmers with other state organizations or possibly establishing a National organization.

5. The recognition, acceptance and support of safe chemicals as a necessary tool in bringing woodland property into full production.

6. A clear position and voice in the area of safety regulation and over-regulation.

7. Membership on the State Board of Forestry.

8. Active county as well as state political committees with a close coordination between the two organizations. This activity could be included more broadly within the organization of PUBLIC AFFAIRS COMMITTEES.

9. Closer ties of county and state organizations with forest protective organizations and all natural resource use organizations such as Bureau of Land Management, U.S. Forest Service, Soil Conservation Service, etc.

10. Development of marketing associations to provide more favorable markets for all members but especially for small ownerships and those more inexperienced or otherwise in need of special marketing skills.

CONCLUSION

The small woodland owner of Oregon shall remain a significant component in the economic, political and social structure of the state. The Association shall continue to derive its strength from the tenets of American free enterprise. Finally, the Association shall maintain a high commitment to the concern delineated in this policy statement.

ILENE L. WALDORF

LICENSED TAX CONSULTANT
118C Engle Avenue
P.O. Box 214
Molalla, Oregon 97038
(503) 829-3181

August 8, 1989

Congressman Ron Wyden
B-363 Rayburn House Office Building
Washington, D.C. 20515

Dear Cougressman Wyden:

You asked that I provide you with a summary of costs of timber management faced by the small woodland owner. Following is a list of costs of management of a 35 acre tract of rehabilitated forest land (conversion of underproductive land).

Management Activity	Cost
Machine slash piling	$1670
Slash burning	750
Brush slashing	600
Sprout control of slashed brush	350
Aerial spray of Roundup (vegetation control)	750
Cost of seedlings (14,000 @ $.175)	2450
Cost of planting seedlings	2800
Animal damage control during 1st 3 years	1300
Brush control	500
Pre-commercial thinning	3000
Road maintenance	250
Annual administrative cost	100
Land taxes ($2 per acre per year)	70
Fire patrol taxes ($1 per acre per year)	35
Insurance (annual)	200

*Land an timber would also be subject to inheritance taxes on an average of once every 20 years.

The small landowner is not equipped to handle many of these tasks so they are often contracted out to qualified parties at a higher cost to the landowner.

If I can provide any additional information, please let me know.

Sincerely,

Ilene L. Waldorf

Ilene L. Waldorf

STATEMENT OF
MR. DON McNEILL
TAX MANAGER
WILLAMETTE INDUSTRIES, INC.
PORTLAND, OREGON

Before a joint field hearing of the
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES,
AND ENERGY
and the
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE,
SUBCOMMITTEE ON FORESTRY AND CONSERVATION

Saturday, July 8, 1989
Portland, Oregon

GOOD MORNING.

MY NAME IS DON McNEILL, TAX MANAGER OF WILLAMETTE INDUSTRIES, HEADQUARTERED HERE IN PORTLAND. I APPRECIATE THIS OPPORTUNITY TO PRESENT TESTIMONY ON TAX ISSUES OF GREAT IMPORTANCE TO THE FOREST PRODUCTS INDUSTRY.

MR. CHAIRMAN, WILLAMETTE IS A LARGE, FULLY INTEGRATED FOREST PRODUCTS COMPANY WITH 70 FACILITIES IN 17 STATES. WE OWN 680,000 ACRES OF TIMBERLAND AND CONTROL THROUGH LONG-TERM LEASES ANOTHER 320,000 ACRES. THESE TIMBERLANDS ARE MANAGED ON A SUSTAINED YIELD BASIS AND WILL PROVIDE ABOUT 43% OF OUR WOOD REQUIREMENTS, WITH THE BALANCE COMING FROM VARIOUS GOVERNMENTAL AGENCIES AND SMALL NONINDUSTRIAL LANDOWNERS.

IN LIGHT OF THE RECENT PRESSURES ON ALLOWABLE HARVEST LEVELS FROM OUR PUBLIC FORESTS, IT APPEARS MORE DEPENDENCE WILL HAVE TO BE PLACED ON PRIVATE LANDS FOR THIS NATION'S TIMBER NEEDS IN THE FUTURE.

THE FOREST PRODUCTS INDUSTRY IS FULLY INTEGRATED, WITH STRONG INTERDEPENDENCE BETWEEN THE TIMBER

GROWERS AND THOUSANDS OF CONVERTING FACILITIES THROUGHOUT THE UNITED STATES. THIS INTERDEPENDENCE PROVIDES A COMMON INTEREST IN TAX INCENTIVES TO ENCOURAGE THE LONG-TERM INVESTMENT IN GROWING TIMBER.

IN THAT REGARD I WOULD LIKE TO TAKE THIS OPPORTUNITY TO DISCUSS TWO AREAS OF GREAT IMPORTANCE TO FOREST LANDOWNERS: FIRST, THE NEED TO REESTABLISH A SIGNIFICANT CAPITAL GAINS RATE DIFFERENTIAL FOR TIMBER INCOME, AND SECOND, THAT CORPORATIONS, AS WELL AS INDIVIDUALS, BE ALLOWED TO BENEFIT FROM A CAPITAL GAINS RATE DIFFERENTIAL.

WE ARE GREATLY ENCOURAGED BY THE RECENT INITIATIVE OF PRESIDENT BUSH WHO HAS CALLED FOR REINSTATING A CAPITAL GAINS DIFFERENTIAL. IT IS A POSITIVE FIRST STEP IN REESTABLISHING A VITALLY NEEDED ECONOMIC STIMULUS TO LONG-TERM INVESTMENT. HOWEVER, WE THINK IT IS CRITICAL THAT ITS APPLICATION BE EXTENDED TO TIMBER, AND TO ALL FORMS OF OWNERSHIP.

UNDER THE BUSH PROPOSAL, TIMBER AS A SECTION 1231 ASSET USED IN A TRADE OR BUSINESS WOULD NOT QUALIFY FOR CAPITAL GAINS TREATMENT. LOGICAL ECONOMIC

REASONING, AS WELL AS FAIRNESS, DEMONSTRATES THAT TIMBER BE ALLOWED TO QUALIFY AS AN ASSET ELIGIBLE FOR CAPITAL GAINS.

WE BELIEVE THERE IS A DIRECT CORRELATION BETWEEN THE TAX RATE AND THE WILLINGNESS TO MAKE LONG-TERM INVESTMENTS. THE LOWER THE RATE, THE GREATER THE INCENTIVE FOR INVESTORS TO MAKE THESE NECESSARY LONG-TERM INVESTMENTS.

A SUBSTANTIAL CAPITAL GAINS RATE DIFFERENTIAL PROVIDES THIS INCENTIVE FOR A LONG-TERM TIMBER GROWING INVESTMENT, AND IS CRITICAL TO ATTRACTING SUFFICIENT CAPITAL TO INSURE THIS NATION'S LONG-TERM TIMBER SUPPLY. THE TAX REFORM ACT OF 1986 ELIMINATED THE EXISTING RATE DIFFERENTIAL FOR CAPITAL GAINS. WHILE THE LOWERED RATES OF TAX REFORM HAVE PROVED BENEFICIAL, THE LOSS OF A CAPITAL GAINS RATE DIFFERENTIAL COULD HAVE A NEGATIVE IMPACT ON THE LONG-TERM TIMBER SUPPLY OF THIS NATION.

THE GROWING AND MANAGEMENT OF TIMBER IS A UNIQUE ECONOMIC ENTERPRISE. IT TAKES 40 TO 75 YEARS TO GROW TIMBER USED TO MANUFACTURE LUMBER AND PLYWOOD, AND 20 TO 30 YEARS TO GROW TIMBER USED FOR

PULPWOOD. THE RISKS ARE HIGH, AND FOR THE MOST PART ARE TOTALLY UNINSURABLE. FOR THESE REASONS CONGRESS LONG AGO SAW THE NEED TO PROVIDE THE TAX INCENTIVE TO INVEST IN THE LONG-TERM PROPOSITION OF GROWING TIMBER. IT'S TIME NOW TO RECOGNIZE AGAIN THAT A CAPITAL GAINS RATE DIFFERENTIAL FOR TIMBER IS A FAIR AND EQUITABLE WAY TO RECOGNIZE THOSE RISKS. SUCH A DIFFERENTIAL WILL STIMULATE A FLOW OF CAPITAL TO TIMBER GROWING INVESTMENTS, HELPING TO INSURE A LONG-TERM SUPPLY OF WOOD.

IF THE CAPITAL GAINS INCENTIVE IS NOT REINSTATED FOR TIMBER, MANY DOLLARS WILL BE ATTRACTED TO OTHER INVESTMENT OPPORTUNITIES WITH LESS RISK AND A SHORTER DURATION.

PRESIDENT BUSH'S CAPITAL GAINS PROPOSAL LEAVES OUT CORPORATIONS, A GLARING INEQUITY WHICH SHOULD BE CORRECTED IN ANY LEGISLATION. IT IS IMPORTANT THAT CAPITAL GAINS BE AVAILABLE TO CORPORATIONS AS WELL AS INDIVIDUALS. EQUITY, AS WELL AS SOUND TAX POLICY DICTATES THAT SIMILAR ASSETS SHOULD BE TAXED ESSENTIALLY THE SAME, IRRESPECTIVE OF THE FORM OF OWNERSHIP.

FOR EXAMPLE, UNDER CURRENT LAW, AN INDIVIDUAL IS TAXED AT A 28% RATE ON INCOME FROM AN ASSET OWNED DIRECTLY, BUT AT A 52.5% RATE ON THE SAME INCOME REALIZED BY A CORPORATION AND PAID TO THE TAXPAYER AS A DIVIDEND. UNDER THE BUSH PROPOSAL, AN INDIVIDUAL WILL INCUR 3.5 TIMES MORE TAX ON A CORPORATE OWNED ASSET THAN ON THE SAME ASSET OWNED DIRECTLY.

THIS WOULD BE AN ILLOGICAL AND UNWARRANTED EXPANSION OF THE EXISTING TAX DISTORTION, BASED SOLELY ON THE FORM OF DOING BUSINESS.

SOME OF THE BASIC OBJECTIVES OF ESTABLISHING A SIGNIFICANT CAPITAL GAINS RATE DIFFERENTIAL ARE TO STIMULATE LONG-TERM ECONOMIC GROWTH, CREATE JOBS, AND ENHANCE OUR INTERNATIONAL COMPETITIVENESS RELATIVE TO OTHER MAJOR INDUSTRIALIZED COUNTRIES. FOR THOSE OBJECTIVES TO BE ACHIEVED, A REVITALIZATION OF AMERICA'S BASIC PRODUCTIVE CAPACITY IS REQUIRED. A CAPITAL GAINS INCENTIVE CAN HELP THAT, AND CORPORATE AMERICA SHOULD BE INCLUDED IN THAT EFFORT.

THE CURRENT TEMPORARY REGULATIONS DEFINING MATERIAL PARTICIPATION BY THE NONINDUSTRIAL PRIVATE

LANDOWNER ARE NOT SATISFACTORY TO INSURE THE CONTINUED LONG-TERM SUPPLY NEEDED FROM THOSE LANDS. I HOPE YOU WILL BE SUCCESSFUL IN YOUR EFFORTS TO CORRECT THIS SITUATION ALSO.

MR. CHAIRMAN, IN VIEW OF THE BUSH PROPOSAL, AND RECENT DEVELOPMENTS CONCERNING THIS IMPORTANT ISSUE, I BELIEVE IT BOTH APPROPRIATE AND NECESSARY TO THANK BOTH REPRESENTATIVE WYDEN AND SENATOR FOWLER AT THIS TIME FOR THEIR PUBLIC SUPPORT AND EFFORTS ON BEHALF OF THE TIMBER GROWERS TO REESTABLISH CAPITAL GAINS. WE AT WILLAMETTE GREATLY APPRECIATE YOUR PERSONAL INITIATIVES IN THIS AREA, AND ARE GRATEFUL FOR YOUR LEADERSHIP, BOTH IN THE HOUSE AND IN THE SENATE, SUPPORTING FAIR TAXATION FOR ALL TIMBER GROWERS. THIS JOINT HEARING IS A SIGNIFICANT EXAMPLE OF YOUR COMMITMENT TO THE ECONOMIC HEALTH OF ALL TIMBER GROWERS, AND WE THANK YOU. I'D BE HAPPY TO RESPOND TO QUESTIONS AT YOUR CONVENIENCE.

Testimony Before the Subcommittee on Regulation, Business Opportunities and Finance
July 8, 1989
Submitted by Staff Attorney, Blair Batson

* * * * * * * * * * * * *

The material participation requirements of the 1986 Tax Reform Act, as interpreted in the passive activity regulations promulgated by the IRS, will lead to decreased productivity of nonindustrial private forest ("NIPF") land in the Pacific Northwest, with adverse impacts on both the economy and the environment. By removing the ability of NIPF landowners to deduct their management expenses on an annual basis, the requirements encourage landowners to either abandon sound management practices, or worse, convert their lands to nonforest uses.

Either option leads to decreased forest productivity.

At a time when the environmental and economic significance of Oregon's timber lands has been so clearly illuminated, any regulation which leads to a reduction in timber productivity appears ill-advised.

The 1986 Reform Act limited the ability of taxpayers engaged in "passive activities" to deduct their business expenses on

an annual basis. The Act defines a passive activity as one in which a taxpayer does not materially participate. Material participation means: "the taxpayer is involved in the operations of an activity on a basis which is (A) regular, (B) continuous, and (C) substantial."

The passive activity regulations promulgated by the IRS, which we have challenged in a lawsuit together with four forest landowner groups, define material participation in a way that renders the forest management activities of many NIPF owners passive.

To establish materiality under the IRS passive activity regulations, the taxpayer must show that he devotes: (1) 500 hours annually to the investment, (2) at least 100 hours to the investment and more time than any other individual, or (3) substantially all the time required by the activity.

Some Facts About Forest Management Practices on NIPF Lands

Growing timber is a 30 to 100 year proposition, depending on the tree species. Although timber investments may not generate income for decades, they require annual management expenses - up to $ 20 per acre in Oregon - year after year.

In managing their land for timber production, NIPF landowners usually spend less than 100 hours per year. This is particularly true in non-harvest years, when management activities consume little time.[1] But even in harvest years,

1 In non-harvest years, forest management includes the following activities:

o road construction and maintenance, to

many NIPF landowners do not work as much as 100 hours per year, because they do not themselves perform substantially all the work involved in forest management.

NIPF landowners frequently hire a management consultant or an independent contractor to do much of the actual management work, so that the NIPF landowner does less than substantially all the work himself. Similarly, although forest management activities in harvest years can require more than 100 hours to complete, management consultants and independent contractors, not NIPF landowners, often perform most of the labor-intensive work. There are at least three reasons why this is so.

First, the recurrence of many forest management activities is too infrequent, and the size of most NIPF land ownerships is too small, to justify the purchase of the expensive and heavy

provide access for management activities;

- brush clearing, to provide light for seedlings and to reduce competition for soil moisture and nutrients;
- scarification, to prepare the soil for planting;
- planting;
- pruning;
- precommercial thinning, to ensure that the most desirable trees receive adequate amounts of sunlight;
- stand inspection, to check for trespass and damage due to disease, insects, and storms; and
- stand treatment, to treat damaged trees and to prevent damage to other trees.

machinery necessary for management activities. For example, a used logging tractor alone can easily cost from $20,000 to $30,000. Meanwhile, most NIPF landowners in Oregon own 50 acres or less, and the size of the average NIPF land ownership is only 125 acres.

Second, even were individual NIPF landowners able to afford the necessary equipment, most of them would not have the expertise to operate it, or to conduct other forest management activities. An Oregon survey, for example, revealed that 88% of NIPF landowners feel they need expert assistance to carry out necessary management activities.

Third, many NIPF landowners are not physically capable of the strenuous measures necessary to conduct forest management. In the Willamette Valley of Oregon, 42% of those responding to an Oregon Department of Forestry NIPF landowner survey indicated that they were fifty years of age or older. Brown, Upper Willamette Resource Conservation & Development Woodland Owner Survey (1985).

Thus, many NIPF landowners engaged in forest management do not contribute substantially all of the participation required to manage their land. Nor do they spend 100 hours a year in forest management. Consequently, they do not materially participate the activity within the meaning of the passive activity regulations. Their forest management activities will be categorized as passive.

The Inability to Deduct Annual Expenses Will Lead Many NIPF Landowners to Abandon Sound Management Practices or Convert Their Lands to Nonforest Use

If NIPF landowners are relegated to the "passive activity" category, or perceive themselves likely to be so categorized, they are likely to convert their land or abandon their forest management activities, rather than carry the expenses of forest management for 40 to 70 years.

The expenses of forest management are considerable, even on the small acreages that typify NIPF land ownerships. For example, over the fifty year Douglas Fir timber cycle in the Pacific Northwest, yearly expenditures for ad valorem taxes and management expenses amount to $ 31,250 for an average NIPF land ownership of 125 acres. Additional expenditures must be made for road construction and maintenance.

None of these expenses produces any immediate income. Under the passive activity regulations, therefore, all these expenses must be borne for approximately fifty years, before the timber operation generates any income.

This is significant for two reasons.

First, 44.3% of the NIPF landowners surveyed in Oregon consider the unavailability of capital to be a very important obstacle to forest management. The passive activity regulations will exacerbate this problem by reducing the profitability, or after tax income, of NIPF landowners. As a result, few NIPF landowners will be able or willing to capitalize forest

management expenses.

Second, nearly half of the NIPF landowners surveyed in Oregon consider taxes to be another very important obstacle to forest management. The size of that obstacle will be magnified by permanent adoption of the passive activity regulations, which will prevent many NIPF landowners from deducting their forest management expenses.

Rather than continue their forest management activities in the face of these obstacles, many NIPF landowners probably will convert their land to nonforest uses or allow their forest management activities to lapse.

The Abandonment of Sound Management Practices and the Conversion of NIPF Lands to Nonforest Uses Will Have Adverse Environmental and Economic Impacts

1000 Friends is concerned about the environmental, as well as the economic, consequences that will likely follow as private forest owners decide that they cannot afford the yearly expenses of managing their forest lands.

The types of adverse environmental consequences depend upon the kinds of decisions NIPF landowners make. Owners of NIPF land might choose: 1) to accelerate timber harvesting, but not regenerate the land, 2) to reduce or abandon forest management activities, 3) to convert to nonforest uses, or 4) all of the above. Each of these c could generate significant environmental impacts.

Many NIPF landowners might react to the inability to deduct

their expenses by liquidating their timber stands, without replanting them. The environmental effects of a decision not to reforest may be severe. Unregenerated, cut over NIPF land is more susceptible to erosion, leading to increased stream siltation.

Although harvesting timber always causes a decrease in wildlife diversity, the period of reduced diversity would be prolonged by a decision not to reforest. Finally, timber production might be reduced by 40 to 60 % over a 60 year rotation period. In addition to exposing soil to wind and water erosion, a reduction in timber production could slow the conversion of carbon dioxide to oxygen and hydrocarbon solids. Thus, liquidation without regeneration may cause significant environmental harm.

NIPF landowners might be inclined to reduce or abandon their forest management activities rather than absorb the expenses of forest management.

Reduction or abandonment of forest management activities may cause significant harm to the environment. For instance, NIPF landowners may attempt to cut costs by making extensive use of herbicides to control species competition. Timber production will be reduced, from 5 to 40%. Reduced timber production could slow the conversion of carbon dioxide to oxygen and hydrocarbon solids, as well as expose soil to erosion by wind and water. Finally, wildlife diversity will be reduced, depending upon the

development of affected timber stands. In sum, the environment could suffer substantial damage as a result of NIPF landowners' reduction or abandonment of forest management activities.

Near urban areas, the inability to expense management costs might well result in the conversion of NIPF land to nonforest uses. Conversion of NIPF land creates a number of significant adverse environmental impacts. For example, conversion of NIPF land to residential uses:

- significantly decreases timber production, bath because forest land is used for residential development, and because residential development interferes with forest management on nearby forest land;
- leads to significant reductions in wildlife diversity;
- increases the susceptibility of soils to erosion;
- slows the conversion of carbon dioxide to oxygen and hydrocarbon solids;
- causes land and water pollution;
- creates demands for public services in rural areas, and results in water shortages; and
- increases the likelihood of forest fires and the the costs of fighting them.

CONCLUSION

There are approximately 25,000 NIPF landowners in Oregon. Collectively, they own 3.5 million acres, or about 18%, of the state's commercial forest land base.

With reductions in harvests on federal and industrial lands imminent, it makes sense to increase, not decrease, forestland productivity. History has shown, however, that decreased productivity is the inevitable result of removing tax incentives to grow trees on private lands.

It should be apparent that Oregon cannot afford the environmental and economic costs of such a result at this time in its history.

NOTES

The information regarding the management practices of NIPF landowners in the Pacific Northwest and elsewhere, and the effect the passive activity regulations could have on those practices came from the following sources. The individuals' statements and copies of the study and survey will be submitted into the record.

1. Dr. Harry L. Haney, Jr., Associate Professor and Extension Specialist, Forest Management-Economics, Virginia Polytechnic Institute and State University, Blacksburg, VA; and Pete Bettinger, Graduate Research Assistant, Virginia Polytechnic Institute and State University, Blacksburg, VA.

2. Lucien B. Alexander, Mason, Bruce & Girard, Inc., Consulting Foresters, Portland, Oregon.

3. Dr. William R. Sizemore, Sizemore & Sizemore, Inc., Forest Appraisal, Analysis and Management, Tallassee, Alabama; Adjunct Professor of Forestry ant Duke University.

4. Senator Bob Kintigh, professional forester in Springfield, Oregon, and Oregon State Senator.

5. Maurice Williamson, consulting forester and owner of 160 acres of NIPF land in eastern Washington.

6. Eileen A. Maxfield, owner of 360 acres of NIPF land in Polk County, Oregon, resident of Torrance, California.

7. Jean McCloskey, owner of 54 acres of NIPF land in northwest Oregon.

8. Keville Larson, consulting forester in Mobile, Alabama, and owner of 530 acres of timberland in Alabama and Mississippi.

9. Oregon State University Extension Service, Woodland Owner Views of Extension Forestry Programs in Oregon (1986).

10. Brown, Upper Willamette Resource Conservation & Development Woodland Owner Survey (1985).

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STATEMENT OF

WILLIAM C. SELLERY, JR.

EXECUTIVE DIRECTOR

FOREST INDUSTRIES COMMITTEE ON TIMBER VALUATION AND TAXATION

WASHINGTON, D.C.

before a joint field hearing of the

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS,

SUBCOMMITTEE ON REGULATION, BUSINESS OPPORTUNITIES,

AND ENERGY

and the

UNITED STATES SENATE

COMMITTEE ON AGRICULTURE,

SUBCOMMITTEE ON FORESTRY AND CONSERVATION

Saturday, July 8, 1989

Portland, Oregon

Summary

- Federal tax policy plays a critical role in the economic considerations of tree growing. Fairness and equity should prevail in the application of taxes to the planting, growing, harvesting, and regeneration of trees.

- A significant capital gains rate differential should be reinstated in a manner consistent with its application prior to its repeal in 1986, including allowing timber to be eligible property for capital gains, and to include both individuals and corporations as owners eligible for capital gains.

  - President Bush's capital gains initiative should be viewed as a welcome first step, modified as indicated, and enacted by Congress.

- Changes should be made to the definition of "material participation", with respect to timber growing activities, as contained in the proposed and temporary IRS passive activity loss regulations.

- Attempts to impose greater estate taxes on family-owned tree growing businesses should be strongly resisted as detrimental to the foundation of America's base of small businesses.

My name is William Sellery. I'm the Executive Director of the Forest Industries Committee on Timber Valuation and Taxation, a nationwide organization of landowners, based in Washington, D.C., whose members are interested in tax laws which will foster and protect the ownership of timberland, and encourage the growing, harvesting, and regeneration of trees.

I am also tax advisor to the National Forest Products Association, a Washington-based trade association which represents the interests of wood products manufacturers.

I appreciate the opportunity to address this joint field hearing, and present our views on tax issues of great importance to timber growers all across America.

The FICTVT is made up of thousands of timberland owners, from every state in the union, ranging is size from the largest, most fully-integrated forest products manufacturing companies, to thousands of individual, private, nonindustrial landowners. Our common bonds are the tax laws which have such a dramatic effect on the forest economy. Perhaps no other single activity of the federal government so directly effects the economic well-being of the overall forest products economy than decisions relating to the Internal Revenue Code. The National Forest Products Association, together with a multitude of other forest related organizations, joins the FICTVT in support of fair tax laws for tree growers.

Forest entrepreneurs - from large industrial to small private owners - are found in every section of the nation. In fact, 58% of the commercial forest land in the united states is owned by 7.8 million individuals. Their ownership covers over 270 million acres. This is more than two times the forest land owned by the federal government. Timber constitutes the largest base of employment and income in many rural parts of the country, employing almost two million people nationwide. The forest economy is an extremely important part of the overall economic fabric of America.

Mr. Chairman, the diversity of supporters of the FICTVT - large and small, corporate and individual, and from all over the country - has provided me with a unique perspective regarding the impact of tax laws on the nature of growing, harvesting, and regenerating trees. Mr. Chairman, I can tell you that there is an immense sense of frustration among landowners as they see their taxes rise to the point where it now makes little, if any, economic sense to plant and professionally manage timberland.

This needs to be changed, and we hope we can enlist your support in this cause.

At this point in time, there are three issues of major interest to timber growers:

> **First, we strongly support reestablishing a significant capital gains differential** in a manner consistent with its application prior to its repeal in 1986, including allowing timber to be property eligible for capital gains, and to include both individuals and corporations as owners eligible for capital gains.
>
> **Second, we strongly support appropriate modifications to material participation tests,** with respect to timber growing activities, currently contained in the proposed and temporary IRS passive activity loss regulations.
>
> **Third, we urge you to resist any attempt to impose greater estate taxes on tree growers,** which in many cases, can cause the forced break-up of many family timber businesses.

Mr. Chairman, with your permission, I'd like to briefly address each of these important issues.

Capital gains

Mr. Chairman, President Bush recently proposed to reinstate a capital gains differential. In that regard, we are greatly encouraged by the President's initiative, and support an active consideration of his proposal as the much needed first step in the process to restore tax equity and fairness to timber growers.

However, significant modifications to President Bush's proposal are critically necessary regarding its application to timber and forms or ownership. The proposal does not include timber (with the exception of so-called "investment timber" and land), and only includes individuals, not corporations. Both of these deficiencies need to be corrected in order to provide both fairness and equity to the proposal. In that regard, the FICTVT recently submitted a statement to the House Ways and Means Committee regarding the President's proposal, which, with the permission of the Chairman, we would request be made a part of this hearing record.

Mr. Chairman, a significant capital gains differential is a economically sound method of providing fair taxation of timber income. Timber growing requires heavy front-end expenditures, long term carrying charges, high risks of weather, disease, insects and fire - all uninsurable. Rates of return are historically low compared to alternate investments, with capital literally locked in the ground during the growing cycle. Timber growing does not enjoy market liquidity as trees cannot be economically harvested before maturity.

The capital gains provision of the Tax Code proved to be an effective mechanism for increased production and improved forest management. Since its enactment in 1944, capital gains treatment for timber sales resulted in impressive gains in planting and productivity. Today, in spite of increased harvests to meet consumer needs, there is actually more growing stock than in 1944. Capital gains played an important role is establishing that fact.

America's forests are the most productive forest lands in the world because of the huge timber growing investments that are made to increase productivity. Without the capital gains rate differential, investments in growing long-term timber crops are not economically viable.

And for every year that there is inadequate reforestation and less effective timber management, that year's lost planting is lost forever - a tree simply cannot be planted retroactively.

The economic impact of the loss of capital gains is just now starting to be felt, with the long term negative consequences likely to be even greater. The consequences of the decreased flow of capital investment in timber is likely to mean that lands currently owned will be less well managed, forest research could decline, pressure will mount to harvest forests prior to economic maturity, planting activity will decrease, and marginal land will go out of production. In some cases, timberland will likely be cut over and replaced with yearly agricultural crops or real estate developments.

All of these likely fallouts will result in fewer jobs and hurt many small rural communities. And, of course, a more limited supply will likely lead to higher prices and significantly greater pressure to harvest timber from public lands at a time when more public lands are being withdrawn from harvesting for a variety of reasons.

In addition, there are a multitude of benefits provided to society by sound forest management practices - practices enhanced by a climate of fair taxation ar owners manage for optimum productivity. These practices serve to significantly enhance the overall environmental quality of our forests and surrounding communities. Our professionally-managed forests provide vital wildlife enhancement, water quality, a hedge for soil erosion, provide for recreational needs and create aesthetic beauty.

In fact, we are now learning more fully the critical role being played by reforestation in the effort to combat the so-called "greenhouse effect", while at the same time, the land is growing trees for the future supply of wood. Landowners are committed to sound environmental stewardship of our forest land. But without the corresponding fair economic environment necessary to grow trees over the long run, represented in part by capital gains, it would not be unreasonable to understand the potential for deterioration in those management practices.

Reinstating a significant capital gains differential, and reestablishing its application to timber for both individuals and corporations, is essential if timber growers are to meet future raw material demands for the thousands of consumer products dependent on wood and fiber.

Passive Losses - Material Participation

The demonstrated record of accomplishment in the timber-growing business is threatened by the generic application of prcposed regulations dealing with the treatment of passive losses. The proposed regulations do not accurately reflect the legitimate problems associated with the unique nature of the timber-growing business. As currently drafted, these proposed regulations would likely diminish our timber supply by encouraging premature timber harvest and stifling investment in forest renewal. The result of this approach, unless modified significantly, would lead to smaller supplies of timber, economic disruption in the timber-growing industry, and ultimately higher prices for timber products.

While we understand that the proposed passive loss regulations are meant to interpret congressional policy as embodied in the law, the regulations themselves, as currently drafted, serve to significantly alter what we believe is the congressional intent to promote sound, long-term forestry management in the United States.

As you know, the passive loss rules were enacted in order to curtail the ability of taxpayers to use the benefits of tax shelters. Timber-growing activities are not effective "tax shelters." Timber growing typically involves cash expenditures made by the timber owner with funds for which he is wholly at risk. The use of non-recourse financing is virtually non-existent. Timber growing does not generate non-cash deductions, such as deductions for depreciation. Further, timing differences are not significant. Expenditures incurred to establish trees (such as planting, seeding, and site preparation costs) have always been required to be capitalized and not currently deductible; timber management expenses and carrying costs are deductible when paid or incurred because to a large extent they represent current costs (such as management costs and annual taxes) not generally having a useful life extending beyond the taxable year and they are maintenance expenditures rather than capital in nature. Owing in large measure to the foregoing, current expense deductions have not been a motivating factor in the setting up of the very few limited partnerships which exist in the timber industry.

In short, timber-growing activities do not bear the indicia of "tax shelters" with which Congress was concerned when enacting the passive loss rules. Nevertheless, under the proposed regulations, timber owners may be precluded from currently deducting management expenses and carrying costs arising from their timber-growing activities. We suggest that such a result is both detrimental to sound forestry policy and contrary to Congress' intention when it enacted the passive loss rules. Unless modified, the proposed regulations will have major negative effects on investment in timber and on timber management and growth, on timber regeneration, lumber prices and the cost of housing, upon employment in the industry and upon the environment.

Timber growing is a lengthy process; it takes many years to grow trees. Seedlings take from 30 to 75 years to produce timber for lumber and plywood, and 20 to 30 years for pulpwood. During this lengthy growing period, timber growing by its nature requires varying levels of activity on the part of a timber owner. Sound forestry management practices will require much activity in some years during the growing cycle, and only a little (or no) activity in others due to this unique situation, we believe it is inappropriate to require, as the proposed regulations do, that a timber owner spend a prescribed minimum number of hours during each taxable year in order to be treated as materially participating in his timber-growing activity.

Furthermore, it is necessary for many timber owners who actively engage in management of their forest property to seek the advice of forestry consultants and for virtually all timber owners to obtain assistance in carrying out some of the physical work on the timberland. Such work may include such activities as constructing logging roads, thinning trees, marking boundary lines, and taking measures for fire protection, disease control, and other essential silvicultural practices. As currently drafted, however, the regulations would preclude many timber owners form materially participating if they use such consultants or agents to any significant extent. We believe that such a result is not sanctioned by the legislative history relating to the passive loss rules, which indicates that the use of the services of agents or employees will not preclude a taxpayer from materially participating in an activity.

The FICTVT, NFPA, and other forest-related organizations support efforts to modify the material participation regulations with respect to timber growing activities. In that regard, we support the initiative of Representative Wyden, together with his colleagues on the Forestry 2000 Task Force in the House of Representatives when they introduced HR 1086, the "Farmers and Woodland Owners Tax Simplification Act of 1989".

The bill would clarify the real intent of Congress in this area by legislatively changing the definition of "material participation". It permits current tree farming expenses to be fully deducted provided the woodland owner "makes substantially all significant decisions required to conduct the activity" or "performs substantially all the work required" for the activity. The bill would also treat the participation of the spouse and dependent children of the taxpayer as satisfying the taxpayer's test.

Implicit within the bill's language is the reasonable and tax-deductible use of professional services such as forestry consulting.

The bill recognizes the special demands made of a tree farmer, who is managing a crop that may take 40 years or longer to mature. With such lengthy rotations, it's unreasonable to expect a tree farmer to tend his crop on a year to year basis with the same degree of hourly participation each year that one would expect of a yearly agricultural crop farmer.

Estate Taxation

Timber growers and landowner all across America have united in an effort to preserve and encourage the continuity of American family businesses, such as tree farming, and oppose the imposition of punitive and confiscatory estate and gift taxes that would destroy such concerns.

The right to own and transfer family businesses and property from generation to generation is a fundamental part of the American economic tradition. That important tradition is becoming increasingly vulnerable to threat, challenge, and possible elimination by proposals such as the imposition of a capital gains tax at death, and the requirement for "carryover basis" on transferred assets.

The estates of small timber business owners and family tree farmers will be most seriously effected by any increase in estate taxes. The majority of these estates consist principally of a single asset - the stand of trees themselves. In many cases, the liquidity problems associated with paying the tax forces the sale of the asset, which with trees can be prior to their maturity. Trees do not enjoy the market liquidity of other assets.

The FICTVT, together with a vast number of other forest organizations, opposes these proposals as detrimental to the fundamental building-block of America's small businesses. We urge that all attempts to increase the current estate tax burden be resisted.

Conclusion

Mr. Chairman, federal tax laws play a major role in the economic considerations of growing, harvesting, and regenerating trees. It is critical to the future of landowners all across America, and to the future supply of wood and fiber, that fairness and equity be the real tests of timber taxation.

The nations privately owned forests are one of our great natural assets. Sound policy regarding the tax treatment of timber income is a vital element in the encouragement of continuing the benefits of the forest. We urge the committees represented by this joint hearing to actively participate in establishing and promoting fair and equitable taxation for timber growers everywhere.

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Bradford S. Wellman
Pingree Associates
Bangor, Maine
Treasurer
Neil P. Wissing
Weyerhaeuser Company
Tacoma, Washington
A. Felton Andrews
Andrews Timber Company
Memphis, Tennessee
Harold W. Arnold
Potlatch Corporation
Lewiston, Idaho
Donald W. Barney
Union Camp Corporation
Wayne, New Jersey
Richard O. Bye
Weyerhaeuser Company
Tacoma, Washington
Jeanne Connelly
Champion International Corp.
Washington, D.C.
Richard P. Coon
Waynesboro, Virginia
Edward A. Flacker
Boise Cascade Corporation
Boise
Arthur Flippo
Flippo Lumber Company, Inc.
Doswell, Virginia
Eley C. Frazer, III
F & W Forestry Services, Inc.
Albany, Georgia
Dwight Harrigan
Scotch Lumber Company
Pollcat, Alabama
Sidney G. Hawkes
The Mead Corporation
Washington, D.C.
L. C. Heist
Champion International Corp.
Stamford, Connecticut
Robert B. Hendricks
Tigerton Lumber Company
Tigerton, Wisconsin
Robert A. Ladig
Scott Paper Company
Philadelphia, Pennsylvania
L. Keville Larson
Larson and McGowin, Inc.
Mobile, Alabama
Kelly C. Niemi
Niemi Forestry
Castle Rock, Washington
Peter Overton
Olympia, Washington
James D. Rogers
Blue Ribbon Tree Farms
Minneapolis, Minnesota
Bartow S. Shaw, Jr.
Shaw, McLeod, Bellune & Hurlburt
Sumter, South Carolina
B. Bond Stuckey
Stuckey Forests, Inc.
Corvallis, Oregon
Neil [illegible]an Cleave
Valley Wood Inc.
Richland, Georgia
Executive Director
William C. Sellery, Jr.
General Counsel
William K. Coudrell

Forest Industries Committee on
Timber Valuation and Taxation
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STATEMENT OF

THE
FOREST INDUSTRIES COMMITTEE ON
TIMBER VALUATION AND TAXATION

THE
NATIONAL FOREST PRODUCTS ASSOCIATION

AND

ALABAMA FORESTRY ASSOCIATION
ALASKA LOGGERS ASSOCIATION
AMERICAN FOREST COUNCIL
AMERICAN FORESTRY ASSOCIATION
AMERICAN PULPWOOD ASSOCIATION
ARKANSAS FORESTRY ASSOCIATION
ASSOC. OF CONSULTING FORESTERS
ASSOCIATED OREGON INDUSTRIES
FLORIDA FORESTRY ASSOCIATION
FOREST FARMERS ASSOCIATION
GEORGIA FORESTRY ASSOCIATION
INTERMOUNTAIN (ID) FOREST INDUSTRY ASSOCIATION
ILLNOIS WOODLAND OWNERS ASSOCIATION
KENTUCKY FOREST INDUSTRIES ASSOCIATION
LOUISIANA FORESTRY ASSOCIATION
LUMBER MANUFACTURERS ASSOCIATION OF VIRGINIA
MAINE FOREST PRODUCTS COUNCIL
MARYLAND FORESTRY ASSOCIATION
MICHIGAN FORESTRY ASSOCIATION
MICHIGAN-WISCONSIN TIMBER PRODUCERS ASSOCIATION
MINNESOTA FORESTRY ASSOCIATION
MISSISSIPPI FORESTRYASSN.
MISSOURI FOREST PRODUCTS ASSN.
NATIONAL CHRISTMAS TREE ASSN.
NEW JERSEY FORESTRY ASSN.
NEW HAMPSHIRE TIMBERLAND OWNERS ASSOCIATION
NORTH CAROLINA FORESTRY ASSN.
OHIO FORESTRY ASSOCIATION
OKLAHOMA FORESTRY ASSOCIATION
OREGON SMALL WOODLAND OWNERS ASSOCIATION
PENNSYLVANIA FORESTRY ASSN.
SOUTH CAROLINA FORESTRY ASSOCIATION
SOUTHERN FOREST PRODUCTS ASSN.
TENNESSEE FORESTRY ASSOCIATION
TEXAS FORESTRY ASSOCIATION
TIMBER ASSN. OF CALIFORNIA
VIRGINIA FORESTRY ASSOCIATION
WASHINGTON FARM FORESTRY ASSN.
WEST VIRGINIA FORESTRY ASSOCIATION

BEFORE THE

HOUSE COMMITTEE ON WAYS AND MEANS

HEARING ON

THE CAPITAL GAINS PROPOSAL

CONTAINED IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1990

APRIL 13, 1989

SUMMARY

- Timber growers and landowners are encouraged by President Bush's first-step proposal to restore a capital gains rate differential, but critical improvements are necessary regarding its application to timber and the allowable forms of ownership.

- While capital gains is accorded to individuals, equivalent capital gains by corporations is omitted without any justifying rationale for their exclusion. Equity, as well as sound tax policy, dictates that similar assets should be taxed essentially the same, irrespective of the form of underlying ownership.

- Under the Bush proposal, timber as a Section 1231 asset used in a trade or business would not qualify for capital gains treatment. Logical economic reasoning, as well as fairness, demands that timber be correctly allowed to qualify as an asset eligible for capital gains.

- The effect of President Bush's proposal is to establish a new category of assets, i.e., "investment assets" vs. "business assets" for the first time in the history of the Tax Code. This distinction would create a severe distortion in the tax treatment of an investment on the basis of whether it was in paper (like a stock certificate) or in physical assets (like machinery and equipment). There is no economic or tax policy basis for such a distinction.

- Capital gains has been an extremely important provision to timber growers since 1944, and its repeal in 1986 was a devastating blow to an already economically fragile resource.

- Timber growing requires heavy front-end expenditures, long-term carrying charges, high risks of weather, disease, insects and fire -- all uninsurable. Rates of return are low with capital literally locked in the ground during the growing cycle. A capital gains rate differential is critical to attracting sufficient capital to insure long-term supply.

- President Bush's capital gains initiative, however, will hopefully start the process toward greater savings and investment, shifting the focus from the short run to the long range, reducing the cost of capital, enhancing productivity, and increasing U.S. competitiveness. His proposal should be improved as indicated and enacted by Congress.

19-939 O - 89 - 5

The Forest Industries Committee on Timber Valuation and Taxation, and the National Forest Products Association, appreciates the opportunity to present this statement to the Ways and Means Committee for their consideration during deliberations on the capital gains rate reduction proposal contained in President Bush's Fiscal Year 1990 Budget. Capital gains has been an extremely important provision to timber growers since 1944, and its repeal in 1986 was a devastating blow to an already economically fragile resource. In that regard, we are greatly encouraged by the capital gains initiative of President Bush, and support an active consideration of his proposal in this Committee as the much-needed first step in the process to restore tax equity and fairness to timber growers.

However, significant modifications to President Bush's proposal are critically necessary regarding its application to timber and forms of ownership. The proposal does not include timber (with the exception of so-called "investment timber" and land), and does not include corporations. Both of these deficiencies need to be corrected in order to provide equity and fairness to the proposal.

The Forest Industries Committee on Timber Valuation and Taxation is a long-established national organization of thousands of landowners and Tree Farmers, whose members are geographically dispersed throughout the United States, and range in size from the largest, most fully integrated manufacturing companies, to the smallest individual private Tree Farmer, all of whom are keenly interested in the taxation of timber. The National Forest Products Association is also a long-established national trade association which represents the interests and views of all producers of hardwood and softwood forest products, and affiliated regional and product associations.

The two organizations are submitting this statement jointly as a demonstration of the interrelationship and interdependence of timber growers and landowners as the raw material source to the mills and production facilities of the thousands of wood products manufacturers throughout the United States. Our interdependence as "supplier and market" provides a common interest in the equitable taxation of timber. In a like manner, there are a number of other associations and organizations related to timber growing who would also like to be associated with this statement. A partial but representative list of those organizations is included on the cover of this statement. As Committee members can see from the list, the interest in fair timber taxation is both broad and deep, with a geographic diversity across America.

President Bush's Proposal for a Capital Gains Rate Reduction

President Bush's budget proposals for fiscal year 1990 contains a provision calling for a restoration of a capital gains tax differential, to help stimulate greater saving, and investment. These are laudatory goals which we strongly support. In that regard, we are greatly encouraged by President Bush's capital gains proposal as a much-needed recognition at the highest level of government of the key role played by capital gains in achieving those goals. We believe President Bush should be commended for his initiative as a sound first step in the process of reestablishing a critical component to equitable taxation. Although there are extremely important modifications needed in its application to timber and forms of ownership which we will discuss later, President Bush's initiative is a vital sign to America that his Administration is committed to working toward a healthy economic environment supportive of increased saving and investment.

Additionally, we are pleased to see the U.S. Treasury figures showing capital gains to be a revenue raiser for the government, not only an economic stimulant. In these days of troublesome federal budget deficits, the Administration's recognition of the increased revenue effect of capital gains will go a long way toward helping to ease that deficit. Treasury's use of dynamic rather than static estimates correctly recognizes the affects of taxpayer response, a critical factor when the realization decision is entirely within the taxpayer's control. It should also be noted that the lower rates established in the Tax Reform Act of 1986 for both individuals and corporations were significantly beneficial. The continuation of these rates at their present levels is clearly important to the nation's economic health.

President Bush's proposal also shifts the business focus from short run to long range, reduces the cost of capital, enhances productivity, and helps increase U.S. competitiveness. The proposal also reduces the Tax Code's bias toward debt financing by decreasing the cost of equity capital. Finally, the proposal reduces taxation of inflationary gains by utilizing a tax rate differential rather than the more complex index adjustment to cost basis. The Treasury analysis indicates that increased tax revenue from capital asset realizations exceed the potential loss of revenue due to rate reduction in every fiscal year from 1989 to 1999. The President's proposal for a 100% exclusion of capital gain for taxpayers with adjusted gross incomes below $20,000 is a welcome initiative, and perhaps recognizes that our major international competitors either tax capital gains lightly, or not at all.

Other areas of favorable benefit of the President's proposal should also be noted. While the proposed holding period extension can possibly create undesirable "cliff effects," it is preferable

to the alternative of reduced tax rates tied to length of holding period. The latter approach would add both "cliffs" and complexity to the Code. Importantly, the 15% cap is a necessary and vital element of the proposal, since it provides the taxpayer with absolute assurance that the tax rate on his realization will be no higher; under our complex Tax Code currently, the marginal tax rates on capital gains realization can exceed 50% if IRA, medical deduction limitations, or social security "taxation" are considered. Additionally, the use of a "cap" in concert with an exclusion has historical precedence in the "alternative capital gains" tax system which existed prior to 1970.

While the Administration's "overview" document indicates that both the "exclusion" and the "maximum tax rate" (15%) will apply to the alternative minimum tax, there is no indication in the detailed General Explanation that the exclusion applies in the alternative minimum tax calculation. It appears that the intent was to provide a corollary minimum tax cap of 15%, as opposed to the normal alternative minimum tax rate of 21%. A 15% cap in the alternative minimum tax calculation is entirely appropriate, since the intent of this legislation is to establish a reduced rate of tax on capital gains generally. It is important, however, to incorporate capital gains in the alternative minimum tax process only via an alternative capital gains calculation. In the pre-Tax Reform Act of 1986 calculation, even though capital gains alternative minimum taxes were limited to 20%, inclusion of capital gains in the alternative minimum tax base triggered alternative minimum taxes on other tax preference items, resulting in capital gains realizations being effectively taxed at marginal rates above 20%.

These are positive attributes of the President's proposal. However, the omission of corporate capital gains, and most trade or business capital assets is puzzling. These omissions flaw President Bush's initiative.

Shortcomings in the President's Proposal

The President's proposal would permit a capital gains rate differential on a selective basis only, restoring capital gains for individuals, while ignoring corporations, and limiting the preferential treatment to a new concept of "investment asset", while disallowing it for assets used in a trade or business (with the exception of land). The selective basis of his proposal is especially curious when one views the goals it hopes to achieve.

Distinctions Between Forms of Ownership

The Administration's proposal to reduce the capital gains tax rate to 15% contains numerous positive attributes, but the glaring omission of corporate capital gains is particularly puzzling. While capital gains of individuals, REITS, RICs, partnerships, and similar "pass-through" entities are included, equivalent capital gains by regular corporations are omitted without any justifying rationale for their exclusion. Equity, as well as sound tax policy, dictates that similar assets should be taxed essentially the same, irrespective of the form of underlying ownership.

A fundamental tenet of tax policy is that the form of ownership should not materially impact the marginal rate of taxation applied to a transaction. Admittedly, double taxation of corporate earnings continues to violate this basic principle. Such violations lead to inequities and excessive "tax planning" to compensate for these distortions. By way of example, the Tax Reform Act of 1986 established a 34% - 28% maximum tax rate differential between corporations and individuals, representing the first time in history that the corporate tax rate has exceeded the individual rate. Not surprisingly, Treasury's 1988 preliminary statistics indicate that while business returns in total are expected to increase by 5.2%, regular corporate returns will decrease by 2.4% (unprecedented in recent history). Conversely, individual and pass-through entity business returns are projected to increase by 6.4%.

Additionally, under current law, an individual is taxed at a 28% rate on an asset owned directly, but at a 52.5% (a 1.9 times tax multiplier effect) on the same profit realized by a corporation and paid to the taxpayer as a dividend. If there is no comparable reduction in corporate capital gains, an individual will incur 3.5 times more tax on a corporate asset than on the same asset owned directly. This illogical and unwarranted expansion of the existing tax inequity, based solely on the form of doing business, is insupportable and will unnecessarily further encourage the restructuring of asset ownership.

Internal Consistency Issues

The proposal's cornerstone, taxpayer responsiveness to lower tax rates (the "unlocking effect"), fulfills two basic functions. First, the "unlocking effect" significantly increases tax revenues in the early years, offsetting the revenues lost from a shift to a 3 year holding period. Secondly, the enhanced liquidity of the nation's capital stock provides additional stimulus for increased economic growth over the longer term. These benefits to the

economy are equally appropriate for the corporate sector. Corporate "unlocking" would stimulate economic growth, providing incremental tax revenue over both the short and long term.

The basic objectives of the proposal are to stimulate long-term economic growth, create jobs, and enhance our international competitiveness relative to major industrialized nations. For those objectives to be achieved, a revitalization of the nation's basic productive capacity is required. This means that corporate America should rightly be included in the current proposal. In addition, the gain on sale or exchange of "assets used in a trade or business" should be treated as "capital assets" qualifying for the capital gains rate differential.

One of the objectives of the proposal is to encourage a flow of capital to innovative, technologically advanced and entrepreneurial-type activities. The omission of corporations ignores the substantial amounts of venture capital funds that currently and historically have come from financial and regular corporations taking equity positions in new ventures. Excluding corporations is inconsistent with that objective.

The proposal notes that restoration of a rate differential roughly corrects for taxation of fictitious, inflationary gains without creating the complexities that indexing of basis would entail. Corporations, likewise, are taxed on fictional gains resulting from inflation under our current system. Continuation of the taxation of "phantom" corporate gains is discriminatory.

Corporations may have been excluded because of a presumed lack of corporate-sector responsiveness to reduced capital gains rates. Exclusion based on this assumption may not be correct. Corporations, historically, have never been exposed to changes in capital gains rates of sufficient magnitude to support this conclusion. The minor one- to three-percentage point rate changes which have previously occurred have always been inadequate to support empirical studies on corporate capital gains responsiveness. Assuming a common definition of "capital assets" and comparable rate reductions for both corporations and individuals, corporate capital gain responsiveness could equal or exceed that of individuals.

Treatment of "Business Assets" in the President's Proposal

The Administration proposes to restore capital gains benefits for individuals, but essentially limits such treatment to "investment assets". To enhance the nation's productive capacity and our competitive ability, as well as to provide simple equity, the proposal should be expanded to include all Section 1231 assets.

The effect of President Bush's proposal is to establish a new category of assets, i.e., "investment assets" vs. "business assets" for the first time in the history of the Tax Code. The new distinction obliterates the existing differentiation between "assets used in a trade or business" (plant, machinery, etc.) and "assets held primarily for sale by a trade or business" (inventory, etc.). This results in a capital gains treatment of an investment being differentiated on the basis of whether it was in paper (a stock certificate) or in physical assets (machinery and equipment). Neither in tax policy nor in economic basis is there any justification for such a distinction.

Treasury provides a series of "justifications" for the exclusion of Section 1231 assets, and perhaps the simplest method of clarification is to address each one of these assertions in order:

1. "Business income, whether derived from the sale of property used in a trade or business or from the sale of property to customers in the ordinary course of business, should be taxed as ordinary income."

   - Throughout the Treasury analysis, an attempt is made to establish a distinction which has not previously existed -- one between "business assets" and "investment assets." The reason for the absence in the legislative history of such an artificial distinction should be obvious. If Investor A purchases $1,000 in stock, and the $1,000 is utilized to acquire machinery and equipment, and Investor B purchases $1,000 of M&E directly, what logic would support a differential tax treatment upon a disposition by either Investor A or Investor B?

   - As stated in the 1985 Treasury report,[1] "The theme running through the exceptions is that capital gain treatment is appropriate only for income resulting from the appreciation in value of investment property or property used in a trade or business. Thus, there are exceptions that deny capital gain treatment of income from . . . the ordinary profits of business operations." Accordingly, the appropriate distinction is between "income from sales in the ordinary course . . ." and "income from appreciation" rather than between "investment assets" and "business assets."

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[1]Secretary of the Treasury. 1985. Report to Congress on the Capital Gains Tax Reductions of 1978. Office of Tax Analysis, U.S. Government Printing Office, Washington, D.C.

2. "The asymmetrical treatment of Section 1231 gains and losses is without justification in tax policy."

   - This assertion ignores both history and the oft-stated rationale for the apparent "asymmetry." The treatment of net gains on Section 1231 property as "capital" and net losses as "ordinary" was sanctioned by the 1942 Act, which restored the capital asset status temporarily taken from these assets by the 1938 Act. Clearly the intent of Congress was to provide a superior tax treatment for "assets used in the trade or business" in anticipation that the business community would replace its antiquated production resources with more modern facilities and equipment.

   - One can surmise that such treatment remains amply justified since Congress has reviewed this treatment on numerous occasions, and, in fact, left it intact until the TRA of 1984 -- a period of some 42 years. And the 1984 modification was simply a restraint, not a repeal, imposed to thwart a limited number of taxpayers who were "gaming the system" by taking capital gains in one year and capital losses in another.

   - A critical element in U.S. industry's prospects for meeting the challenge in the international market place is its ability to modernize plant and equipment. Assuming that is still a national objective, the Tax Code should support, not hinder, such modernization.

3. "The availability of capital gains treatment for gains from sales of depreciable assets stems from implementation of excess profits taxes during World War II."

   - Factually, capital gains treatment for "assets used in the trade or business," including depreciable property, has been available since a special tax rate for capital gains became part of the Tax Code in 1922. The singular exception (not counting post-1987, of course), was the period 1939 through 1942, when "Section 1231" assets were treated as "ordinary" in order to provide a better tax benefit. Because Section 1231 assets were generally being disposed of at a loss during the depression years -- and the deductibility of capital losses was severely limited -- Congress in the 1938 Act simply shifted Section 1231 assets to the "ordinary income" category so that the capital losses could attain a full tax write-off. By 1942, the wartime economy, coupled with government requisitions, was generating gains on Section 1231 assets, and it became appropriate to restore them

to their historical capital asset status. Treasury's explanation was unfortunately taken totally out of historical context.

4. "One of the significant policy advantages of current law is the greatly reduced significance of recapture rules."

   - o The "recapture rules" of sections 1245 and 1250 have been a key element of the Code, largely preventing the conversion of ordinary income to capital gains as a function of depreciation write-offs. They did not, however, "go away" with the enactment of the '86 Act. Rather, all of the calculations under the "recapture rules" are still necessary in order to separate capital gains or losses from ordinary profits. Recapture may have "greatly reduced significance" simply because of the current absence of a capital gains benefit, but all of the calculations and administrative effort are still in place.

   - o Under Section 1245, all depreciation previously claimed is "recaptured," so the only potential for capital gains on depreciable <u>personal</u> (Section 1245) property would occur when the sales price exceeds the original cost. While an admittedly rare circumstance, such an instance clearly represents a true capital gain, and its not clear why Treasury chose to exclude such gains from beneficial treatment.

5. "Restoration of a capital gain preference for depreciable and depletable business property would make tax shelter investments more attractive."

   - o Advocates of capital gains restoration have no interest in reinstituting "tax shelters," but it is not apparent why including Section 1231 assets in the capital gains restoration would produce that result. As noted above, depreciation is fully recaptured on Section 1245 personal property, thus no "tax shelter" potential exists.

   - o In the case of real property subject to Section 1250, depreciation is only partially recaptured so there is some measure of prospective "conversion" of ordinary income to capital gains over the life of a real property asset. If "tax shelters" remain a concern, even with the existence of the "passive loss rules" and extended depreciable lives, then the expansion of Section 1250 to encompass Section 1245-type limits on depreciable structures should solve that problem.

6. "Gains on non-depreciable property that is used in a trade or business and is not held for sale in the ordinary course of business would be eligible for lower capital gains rates. Loss would also be treated as capital losses."

   o In an abrupt reversal of all logic which has preceded this particular language, Treasury decides, and correctly so, that its attempted bifurcation of capital assets between "investment assets" and "business assets" is inappropriate. And so for "non-depreciable business assets," it would permit capital gain treatment. One can only applaud the correctness of this posture on non-depreciables and urge its extension to "depreciable property."

Treatment of Timber as a Section 1231 Asset

Gains or loss realized on timber dispositions should continue to be treated as a Section 1231 asset. Treasury maintains that the special treatment provided under Section 1231 applies to "assets held for sale in the ordinary course of business". It is true that timber sold pursuant to Section 631(b) qualifies as a Section 1231 asset, if the seller retains an economic interest. But that does not apply to timber under a Section 631(a) election where the owner who cuts his timber for his own use is deemed under the election to have made a sale. If timber were excluded from Section 1231 treatment, it would mean that the inequity which existed prior to 1944 would return. Under the pre-1944 situation, taxpayers selling land with the timber could qualify for capital gains treatment, while taxpayers who sold only the timber, or those who cut timber for their own use, would have to report all the gain as ordinary income. Congress qualified all timber sales in the Revenue Act of 1943 when it determined the bifurcated tax treatment resulted in inequitable treatment of timber owners and led in some cases to timber cutting practices which were depleting the nation's critical resource of timber.

That decision of Congress proved to be wise. From 1944 on, the number of trees planted has far exceed those cut each year and long-term timber management has increased. The nation's timber inventory has increased, notwithstanding that demand for timber products substantially increased over the same period.

Other Components of Timber

A timber operation requires heavy front-end expenditures, long-term carrying charges, high risks of weather, disease, insects, and fire -- all uninsurable. Of course, there is the market risk of waiting decades until the trees are ready for harvest. Without a rate differential, timber is unlikely to

attract sufficient investment capital to keep up with the increasing demand. Those who would respond by saying that if demand exceeds supply it will drive up prices bringing capital back to the timber industry have not fully considered the uniqueness of timber growing. For every year that there is inadequate reforestation and ineffective timber management, the more planting that has to be done in the future to makeup for this loss. Already in the northwest region of the country there are disturbing signs of timber shortages. Many sawmills have shut down because they cannot obtain logs. More are likely to be closed from the pressure resulting from forestland being taken out of production for a variety of reasons. This means that those lands remaining for timber production must be managed more intensively. To the extent that private-forest landowners do not reforest, or management practices become less efficient due to misdirected tax policy, those pressures will continue to escalate the pressure on public lands.

Unless equitable tax treatment is restored for timber growing, it will curtail investment and timber growth and jobs will be lost. Thus, revenues will be reduced. Investment in timber is not a tax shelter and capital gains has been accorded to create an equity between investors in timber and those who invest in other kinds of businesses. The equitable tax treatment of timber reversed the pre-1944 trend of cutting without any follow through with timber planting and good timber management.

Timber growers responded to the equitable tax treatment that Congress provided commencing in 1944, and the results have been spectacular. Thousands of farmers have invested untold funds, time and effort in growing trees. In 1986, the rug was pulled out for many timber growers because the equitable tax treatment they expected to get when they sold their timber was revoked, forcing them to report gains when they sell their timber at ordinary rates and without the possibility of averaging their income even though economic circumstances forces them to receive a lifetime's gain on their timber in one year.

The repeal of capital gains rates by the '86 Act created a serious inequity for all risk takers and for those who invest in the productive sector of the economy. There is a dispute over whether capital gains rates result in a revenue loss or a revenue gain. Regardless of whose revenue estimates are valid, the true measure is how much additional revenue is raised from a stimulated economy when the risk takers believe they are taxed fairly on the gain, if any, that is realized on such investments. The repeal of capital gains has created a disastrous situation for the forest industry. The long period of time that trees must be nurtured before they are ready for harvest exacerbates the inequity. Because trees are held so much longer than other productive assets a larger part of the nominal gain is inflationary or imaginary

gain. To tax the nominal gain at ordinary rates results in an effective tax on the economic gain far in excess of the statutory rate. Lack of a capital gains rate differential results in the taxation of timber sales gains at excessively high rates. For example, if a tree farmer had to hold his trees for 25 years (a not unusual holding period, in fact, it is on the low side) and during that period the nation experienced an annual rate of inflation of 4%, at least half the gain would be inflationary or phantom gain. If the tree farmer is taxed at 28% on the total gain, the effective tax rate on his real gain is 56%!

Despite the increasing demand for forest products (and hence timber) investors cannot put money in timber operations when the tax burden is simply too high. Tree farmers who persist, and some will out of pride, will see their investment financially ruined. They are likely to end up paying a federal tax that will result in their suffering an economic loss on the sale of their timber. Capital will simply no longer flow into timber growing when inflation is taxed as though it were true profit.

The consequences of the decreased flow of capital investment in timber means that lands currently owned will be less well managed, forest research will decline, forests will be harvested prior to economic maturity, planting activity will decrease and marginal lands will go out of production, timberlands will be cut over and converted to agriculture, which would lead to more agriculture surpluses. All of these fallouts will result in fewer jobs and hurt many small, rural communities. And, of course, all this will lead to less timber consumed at higher prices and significantly greater pressure to harvest timber from public lands. Currently the trend is for more public lands to be withdrawn from harvesting by the private sector.

Capital Gains Aren't Just for the Rich

Before its elimination in 1986, the capital gains rate differential was a critical component in the economic considerations of thousand of small, non-industrial private landowners -- none of whom would consider themselves "rich." However, the myth persists that capital gains benefits only the wealthy. Strikingly, a 1981 study of IRS statistics dramatically shows that over 80% of the individual returns reporting gains from the sale of standing timber had adjusted gross incomes of less than $50,000[2]. The frustrations of the "for the rich only" myth is

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[2]Clark, Bobby and David Paris, 1986. Sales of Capital Assets, 1981 and 1982. Statistics of Income Bulletin, Winter 1985-86, Internal Revenue Service Pub. 1136 (Rev. 1-86), pp. 65-89

aptly summed up by the March 16, 1988 letter to the Washington Post Editor from S. M. Stripling, the 1987 National Outstanding Tree Farmer from Georgia:

> "Your statement that fifty percent of the capital gains go to upper-income people may be true, but that means that the other fifty percent goes to those of us in the lower brackets. It doesn't take much of a tax increase to put us out of business. If we are going to talk fairness, it shouldn't matter whether you're rich or poor when it comes to how capital gains are taxed."

Adverse Impact on International Competition and Trade Balance Deficits

Factors that in the long-run will result in a reduction of timber supply means that less timber will be available for export. Timber and wood products are a major factor in holding down the nation's balance of trade deficit. In 1988 forest products exports totaled $ 5.3 billion, making the U.S. a net exporter of forest products for the first time in many years. One of the adverse factors threatening the continuation of timber's contribution is the inequitable taxation of timber in this country. Most other industrial countries have lower capital gains rates than this country had and a lot of countries do not tax appreciation at all. That is, they impose no tax at all on the sale of capital assets.

Adverse Impact on the Environment

There is growing concern over the release of carbon dioxide into the atmosphere and the long-range greenhouse impact. Trees absorb carbon dioxide and experts who are addressing this serious problem have all indicated the important role that trees play in controlling the greenhouse effect. They uniformly recommend that more trees be planted. Recently, when a utility expanded its plant it learned that 5 million trees would be needed to offset the carbon dioxide that the new plant would release into the atmosphere. To its credit, the utility embarked on a program of planting that many trees around the world. A lot of this planting is being carried out in countries where the timber has been largely cut over.

Forests have always had a favorable impact on producing a better environment apart from absorbing carbon dioxide. They hold the soil in place, provide large wooded areas suitable for outdoor activities, such as hiking, camping, hunting. In addition, forests are things of beauty. Obviously, the better we manage our nation's forests the greater is the beneficial impact on the environment.

Conclusion

President Bush's proposal to restore a capital gains rate differential is an important initiative to promote long-term savings and investment. The case for capital gains is compelling, and the President's proposal is a welcome first step.

However, there are critically needed modifications required regarding its application to timber and to the forms of ownership. Both corporations and individuals should fairly be allowed capital gains benefits; the form of ownership should not determine the tax treatment of the transaction. In addition, Section 1231 assets used in a trade or business, including timber, should be qualified for capital gains treatment. These modifications would greatly improve the fairness and equity of President Bush's initiative.

The nation's publicly-owned and privately-owned forests are one of our great natural assets. Sound policy regarding the tax treatment of timber income is a vital element in the economic consideration of growing trees. We urge the Committee to actively consider President Bush's capital gains proposal, improve it as fairness and equity dictates, and for Congress to enact it.

TIMBER TRADE OPPORTUNITIES

FOR

NORTHWEST SOFTWOOD PRODUCTS IN THE PACIFIC RIM

Trends, Problems and Opportunities

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For Presentation at

Joint Field Hearings
Subcommittee on Regulation, Business Opportunities and Energy
U.S. House of Representatives
and
Subcommittee on Forestry and Conservation
U.S. Senate

Portland, Oregon
July 8, 1989

Introduction

Importance of Forest Products Trade to US

* 1988 Total Exports $12.7 Billion
* Solid Wood Products $5.2 Billion: Trade Surplus
* Pulp and Waste Paper $3.7 Billion
* Paper and Paperboard $3.8 Billion

Significance of Pacific Rim

* North Asia (Japan, China, Taiwan, Korea, Hong Kong) $5.6 Billion (44.1 percent)
* South Asia (India, Malaysia, Singapore, Indonesia, Philippines) $364 Million (2.9 percent)
* Oceania (Australia, New Zealand) $298 Million (2.4 percent)
* Total Pacific Rim approximately 50 percent of Trade in Total Forest Products

Trade Dominated by Solid Wood Products

* 1988 Total $ 5.2 Billion
* Japan: $2.2 Billion (43.3 percent)

Solid Wood Exports and the Pacific Rim

* Trade dominated by Japan ($2.2 Billion in 1988)
* Increasing importance of So. Korea, Taiwan, and PRC
* Canada as Pacific Rim Trading Partner $485.7 Million 1988
* US Softwood Exports: Logs most significant since 1981 (2 Billion BF up to 4.6 Billion BF) but Softwood Lumber growing rapidly
    # Slight Decline 1981-85: 1.5 Billion BF
    # Growth to 3.1 Billion BF 1988: Up 107 percent
* US Softwood Exports have increased in per-unit value: Total

Value increase exceeds volume growth.

Softwood Logs > $2 Billion 1988 Twice 1984 Value but only 36 percent in volume

Softwood Lumber > $1.1 Billion 1988 Up 114 percent in Value and 103 percent in volume since 1984

Softwood Exports favor Quality Northwest Timber Species

*Softwood Logs Exported 1988 4.6 Billion BF

Douglas-fir 2.3 Billion BF

Hemlock 1.4 Billion BF

Cedars 140 Million BF

Spruce 261 Million BF

* Softwood Lumber Exports 1988 3.2 Billion BF

Western Hemlock, Douglas Fir, Ponderosa Pine, Spruce, Cedar

Increased by average 31 percent 1986-87

Washington State Leading State for Wood Products Trade

* State Exports $3.1 Billion in 1988; up from $1.5 Million in 1985 (Ave increase of 26.3% annually). WA 24.3% of U.S.; 40% Wd & Lbr

* Washington Trade dominated by Softwood Logs and Softwood Lumber 87.5 percent of Wood Products trade from State and 59.4 percent of total State Forest Products trade.

Trading Partners and Competitors - Selected Countries

Canada

* Canada major producer and exporter of Softwood products

* Export restrictions on logs, emphasis on sawnwood and finished lumber

* Exports of softwood lumber increased from 12 billion BF to 18 Billion BF

* Majority of Canadian softwood lumber exports to US: 15 Billion BF in 1987: trend flattened in 1985-87 in part due to countervailing duty/export tax/higher stumpage fees in Canada

Australia

* Important softwood sawnwood market for US and Pacific Northwest
* US Exports about 370 cubic meters (1 MBF = 4.53 CUM)
* Canada and New Zealand major competitors for softwood lumber
* US (and Canada) export primarily rough cut squares of green timber for resawing in Australia (mainly Sydney market)
* Market is mix of rough cut (green) and dressed materials; approximately 75-80 percent rough cut material
* New Zealand increasing exports of Dressed Radiata Pine, dimensioned and dried for structural use
* Australian market shifting rapidly to Stress-Rated grading for struetural materials: Radiata pine making rapid inroads outside Sydney
* Relative decline in native and imported hardwood sawnwood: favoring shift to softwoods: Douglas-fir ("Oregon") is highly preferred species. Opportunities for movement into processed markets

New Zealand

* New Zealand historically not important international wood player: future role likely to be quite significant
  # over 1.1 million Hectares fast-growing Radiata pine plantations. Will mature in 1990's and through 2015
  # Domestic market reasonably saturated and small. No significant increase in domestic consumption expected
  # Expected harvest will increase by 2.5 to 3 times from current levels
  # Most of increase targeted for export. Australia the traditional market but only small fraction of increased harvest will likely go there due to relative small market and

modest growth in residential construction.

* Log exports will continue to grow as mature pine becomes available on market

* Japan has been traditional log buyer. 1988 purchases were about 560 thousand cubic meters.

* Australia not a log buyer

* Korea and China (PRC) have become significant importers of Radiata pine logs from NZ in competition with US. (Chile also major supplier of Radiata pine: more so in the future)

* Total sawn timber exports have declined since early 1980's

  # Decline in housing in major markets (Australia and Japan) in early 1980's

  # Lack of mature Radiata pine yielding high quality clearwood with acceptable export values

* Gain in market share in Australia with dressed (kiln dried) and stress graded structural materials. Have adapted to Australian grading standards for export

* Significant increases in higher-quality clear grade sawnwoods expected in next 10-20 years as thinned and pruned plantations mature.

* Future quality of NZ harvest uncertain due to changing economics of forest management. Less intensive silviculture (less pruning and thinning) may favor pulpwood and/or lower grade structural yields. Next decade will determine trend.

Japan

* Major player in Pacific Rim in terms of international trade in forest products. Most important trading partner for US, accounting for $2 Billion (52.8 percent) of US softwood exports in 1988.

* Japan only 1/3 self-sufficient in timber; will not likely increase self sufficiency significantly in spite of forestry programs. Non-timber and environmental constraints will likely limit increases in domestic harvest. Demand will continue to grow in near term.

* Japan historically a log importer. Desire to custom-cut timber for spot market. Absence of unified grading systems and channels for distribution of standardized products limits market for processed wood. Softwood log imports from U.S. exceeded $1.3 in 1988, an increase of 17 percent from 1987.

* Traditional Japanese wood construction is of post and beam, utilizing many non-standardized components. Purchase of large volumes of standardized materials requires market adjustment and changes in construction technology.

* Log market shared by softwoods and hardwoods

  # Softwoods from North America, USSR and New Zealand

  # Hardwoods from Indonesia and Malaysia

* Declining availability of SouthSea hardwood logs

  # Export ban in Indonesia. Hardwood log imports have exceeded softwood, although volume has declined steadily since 1980.

  # Potential overcutting in Malaysia and Philippines

* Significant potential for increased markets for softwood species as supply of hardwoods tightens.

* North America dominates softwood sawnwood market, although total volume is less than 30 percent of sawlog volume. Canada is major softwood sawnwood supplier.

* US (and Canadian) promotion/demonstration projects actively changing residential market - "2X4" still small component of total residential housing construction.

  # Summit House: Joint government-private sector initiative

  # Changes in building codes to permit vertical 3-storey units of wood frame. Still restrictions on horizontal 3-storey construction with wood frame.

  # Seattle Village (and Vancouver Village) Demonstration project in Kobe: Backed by Government Housing Loan Corporation (GHLC) as model for evaluating cost and technology advantages of "western" methods

  # Washington Village as larger-scale demonstration project

People's Republic of China

* China produces large volume of timber yet suffers continuing- and growing timber deficit. Increased demand driven by economic reforms leading to higher incomes and ability to import goods driven by foreign exchange availability. Foreign reserves continue to be major constraint on timber trade.

* FAO estimates place total timber consumption at 270 million cubic meters, considerably above official State timber plan of 65-70 million cubic meters. Harvesting outside the State plan and illegal cutting (timber and firewood) greatly exceed official harvest levels.

* China forest being depleted of mature timber. Forests of 115 million hectares represents 12 percent of land area. Reforestation has not kept pace with harvesting.

* Imports have grown to approximately 10 million cubic meters (1988). Most imports are softwood logs, obtained from North America and USSR. Hardwood log imports have averaged about 1-1.5 million cubic meters per year. Conifer imports slumped in 1986-67 after steady growth beginning in 1979. Foreign exchange limitations caused this reversal. Renewed market growth was experienced in 1987-88.

* US exports to the PRC are almost entirely softwood logs from the Pacific Northwest. The Seattle and the Columbia-Snake River Customs District dominant this trade. Small volumes from Northern California and Alaska contribute to trade with the PRC.

* China has historically been a "low-cost" buyer, shopping for the lowest unit cost. The trends in both volume and unit value exports follow the international marketplace. Due to international supply-demand considerations, China has been forced to pay higher prices even in times of greater imports.

* Western North American exports of softwood logs to the PRC are dominated by the US Pacific Northwest, with much smaller volumes of logs obtained from Canada. Changed policies for export taxes on logs will likely curtail Canadian log exports further.

* In contrast, Western North American softwood lumber exports to the PRC are sourced primarily from British Columbia. US Pacific Northwest exports of softwood lumber peaked in 1984 (42 million BF) and declined with the economic downturn in timber trade in

1985-86. Volumes have not increased from the US with the 1987-88 upturn, although Canada has seen significant increases.

* U.S. exports of forest products to China are sourced primarily from Washington and Oregon. In 1988, Washington exports totalled $352.7 Million (56.7 percent) with $99.7 Million supplied by Oregon (16 percent).

* US exports of forest products increased by 81 percent in value terms in 1988 (over 1987) Wood products increased by 168 percent; pulp products by 38 percent, and paper products decreased by 31 percent.

Trade and Tariffs

* U.S. exporters of softwoods are faced with a general bias in tariff schedules which favor unprocessed logs and semi-processed timber in contrast to value-added goods. This bias is also more significant for the developing economies of the Pacific Rim than for established mature developed markets.

* Tariff rates in developed markets are generally modest, but with substantial differences between processed wood and unprocessed wood in Australia, Canada (plywood) Japan, and Scandinavia.

* Discriminate rates for developing countries in the Pacific Rim show considerably higher rates on unprocessed logs (generally 10 percent or more) with rates on lumber exceeding 15 percent common. Rates on plywood range from 25-30 percent, and reach 40 percent for the Philippines.

* Tariff rates for wood products in Japan, the major wood products market, have been adjusted over the 1986-88 period, yet still remain significant for value-added products including veneer, plywood and finished lumber. Application of tariff schedules to value-added products such as laminated beams is frequently confusing based on overly broad interpretation of schedule definitions.

* Market access restrictions, including restrictive building codes, distribution channels and related issues are being partially addressed by current industry-government cooperative market development programs. Expanded educational programs designed to elaborate the end-use economics of US materials and technology are needed. Greater in-country presence and user contact would represent a significant improvement over current efforts.

General Concluding Observations

* Growing markets in other countries, primarily S. Korea and Taiwan, of the Pacific Rim represent significant opportunities for US Forest Products. The understanding of these markets and the unique characteristics of wood consumption and production is limited, and cannot be assumed as similar to Japan (or any other country, for that matter). Expanded market development efforts are needed to reach the full potential of these countries.

* Market development programs have improved significantly in the past five years. Cooperative efforts by FAS, ITA, the forest products industry, and the newer University-based ITDC's has added focus and coordination to a previously inadequate effort. Yet total resources available for market development is small in comparison to efforts by other countries, and even for other commodities (eg agriculture) within the U.S.

* Coordinated State and Regional programs are emerging which can target the needs and opportunities for wood product producers. Efforts in Washington State involving the State Department of Trade and Economic Development, The Evergreen Partnership (private sector), CINTRAFOR (Academic) and the federal government through funding for CINTRAFOR as a ITDC together with the programs of the U.S. Forest Service's International Trade Analysis provides a good example and a model for expanded cooperative efforts.

* Targeted efforts towards trade barriers (tariff and non-tariff) should continue. The efforts of the US Trade Office is an encouraging development. This initiative, however, must also be matched by programs to assure that US firms have adequate information and an understanding of the specific market needs and business practices in overseas markets.

* Efforts to "regulate" value added through restrictions and export bans are likely to prove futile, with only marginal effects on domestic processing or comparative advantage. The Pacific Rim is increasingly an integrated timber economy. Market opportunities won or lost will be determined by comparative costs and efficiency - neither of which will be encouraged by restrictions.

* The U.S. forest products industry has become increasingly international in its perspective. Changes in technology, processing, and marketing are reflecting the growing awareness of the distinctions between the domestic and offshore market. Adaptability and long term commitment to export markets is growing and should be encouraged through cooperative market development whenever feasible, backed by ongoing market intelligence and analysis which can provide the information base needed for private entrepreneur decision-making.

Washington is a model for state export programs

A GOLD "E" FOR EXCELLENCE should go to the state of Washington for excellence in export promotion. The cooperation among the state government, the University of Washington, and the private sector is blooming into a promotional triad that, in my opinion, should serve as a model for all other states.

Washington is America's number one state exporter of forest products—$3.0 billion last year. And it carries that mantle of leadership well.

Quite a few states are aggressive promoters of their exports. A number have significant reserves of timber and forest products companies, both large and small. And a few have large universities with major commitments to forest products. But none have combined these resources in a manner that remotely approaches Washington's international cooperative program.

The state government recognizes the value of its exports. Gov. Booth Gardner and his predecessors have long emphasized the importance of wood exports. At the staff level, Washington's Department of Trade and Economic Development demonstrates enthusiasm and industry expertise. Combine that with a powerful and independent Department of Natural Resources (DNR), and you have a state organization which backs exports and export promotion to a degree rarely evidenced elsewhere.

Then there is the University of Washington, one of the nation's leading forestry schools. The dean of that school, believing it should do more, pushed through a forest products international trade program eight years ago called CINTRAFOR. Starting slowly, the program is increasingly bringing forest products academic expertise into the international economic arena, not only for scholarly analyses of the issues, but also for solid, helpful projects on real opportunities that can strengthen the state's producers' positions in the competitive international market.

Then there is the private sector. It is well known that the "Big W" is headquartered in Federal Way outside Tacoma and that it wields significant power in the state house, the university and the industry. What is probably less understood is that this power is more often than not directed at issues —particularly in the international arena—that truly are "good for the industry and country," not just that company itself. Of course, Washington is the home of many other forest products companies, a few of which—Plum Creek Timber, for example—have equivalent insights into and support for activities to build industry position in foreign markets.

And Washington is the home of the American Plywood Assn., without doubt the most aggressive promoter of all industry associations. Though APA is a national association, its activities often provide disproportionately greater benefits for forest products companies in Washington state.

Finally, there is the unique private sector-dominated/state-supported entity called the Evergreen Partnership. Financed mainly by nearly 70 companies, the Partnership was founded two years ago through the instigation of the farsighted head of the state's DNR and several key companies. The Evergreen Partnership is proving to be what its founders wanted—the cohesive force that binds together government, academia, and the private sector into a cohesive whole for the benefit of the entire state. Although it has a relatively small budget, it is becoming a significant force for promotion of the state's forest industry, both pulp and paper and solid wood.

Washington's primary customer is Japan, and an examination of state-related activities now underway illustrates the depth and breadth of its promotional program.

The state's economic development arm and the Partnership recently cooperated to assist Washington companies exhibit in the Japan Home Show. The state's companies represented a major share of the U.S. companies participating in that very successful show.

The state, CINTRAFOR, and the Partnership, with the participation of APA, are actively backing two demonstration projects which will be showcases for Washington building products in Japan. Seattle Village is a 13-house project being built in Kobe, Japan, the sister city of Seattle. Seattle Village is a joint endeavor between the Japanese government housing loan corporation and a U.S. committee including CINTRAFOR, APA, several Washington companies and others. Its primary objective is to demonstrate the viability of North American housing construction using dimension lumber and 4x8 plywood.

Washington Village is an even more ambitious project. This housing venture is also a joint activity between the state and its sister prefecture, Hiyoga, in Japan. Now in its planning state, the project will eventually involve 174 units of Washington-style wood frame housing—again demonstrating U.S. building methods, as well as landscaping and planning—in a new "International Garden City" in Hiyoga.

As a third example, I should mention a recent seminar in Seattle which was sponsored jointly by all three organizations. This program, describing how Washington wood is increasingly flowing into Japanese housing, was attended by over 100 Washington exporters and interested organizations. It was the first in a series of seminars on forest products exports which have been scheduled to be held quarterly. These, and a host of other programs—e.g., market analysis, special publications, export data analysis, consulting help—illustrate the magnitude of Washington state's export expansion effort.

Hopefully, we will see more of this government/institution/private sector cooperation throughout our land, not only in forest products but other industry sectors as well. The country needs exports, and this type of working together will certainly help make them happen.

—John V. Ward

JOHN V. WARD is president of John V. Ward Associates Inc., an international trade consulting firm which specializes in market development, market research and market access problems. He is the former vice president, international trade, for NFPA. Send any questions, comments or suggestions for this column to John V. Ward Associates Inc., 1738 N St., N.W., Washington, D.C. 20036. Tel. (202) 331-7742.

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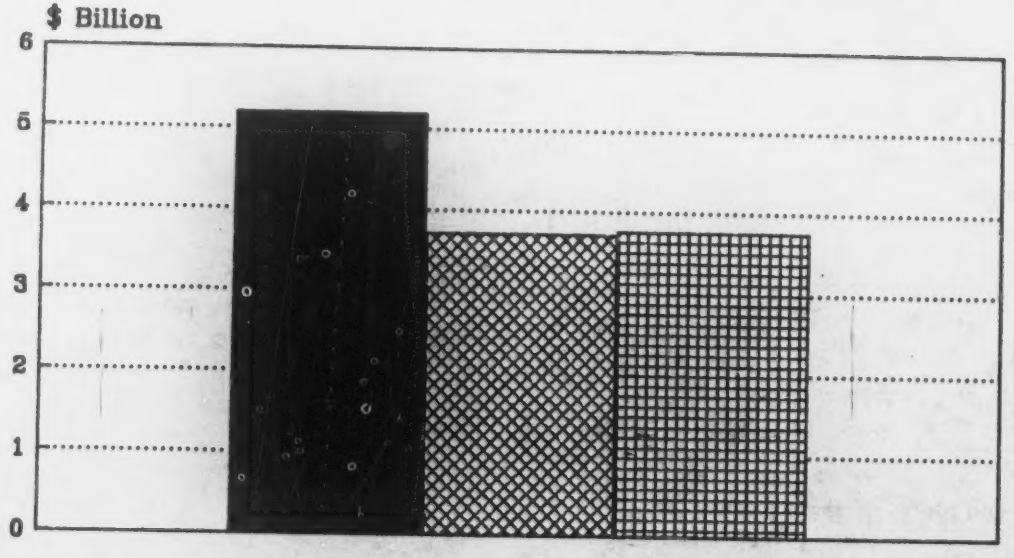
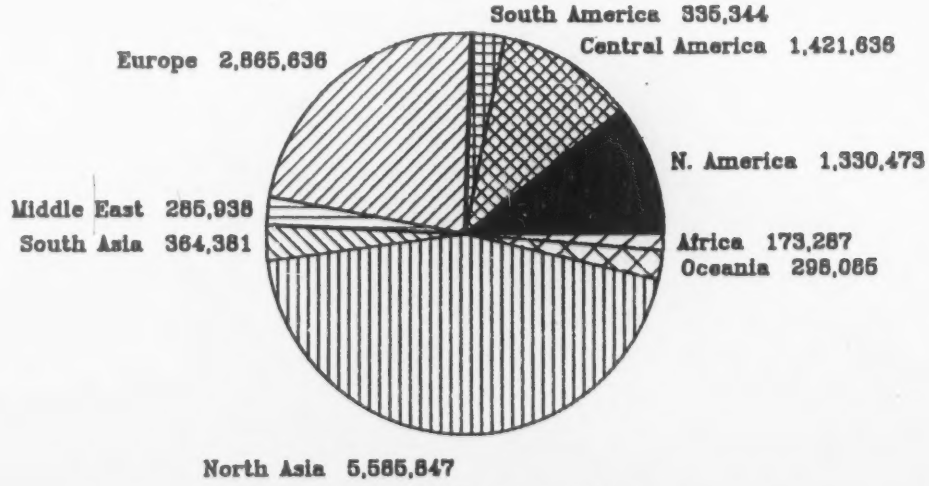


TOTAL $12.7 BILLION

WOOD PROD PULP/WASTE PAP PAPER BOARD

CINTRAFOR/US DEPT COMM

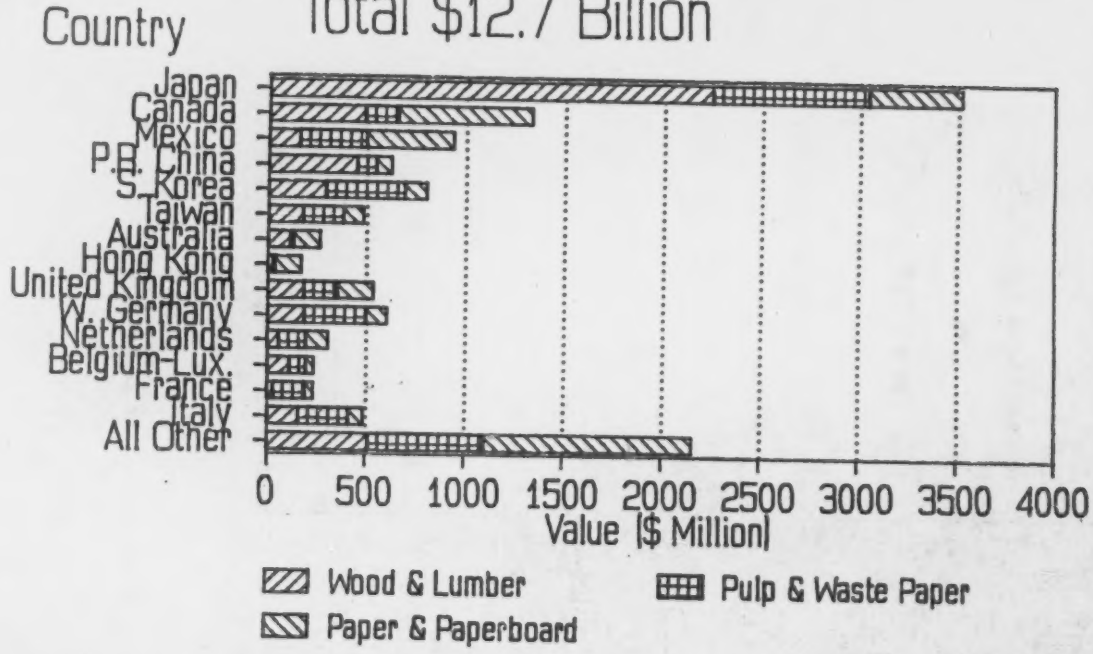
US Total Forest Products Exports
1988 by Value ($1,000)



TOTAL $12.7 Billion

CINTRAFOR/US DEPT COMM

U.S. Total Forest Products Exports 1988
Value by Country of Destination
Total $12.7 Billion



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U.S. WOOD PRODUCTS EXPORTS 1980-88
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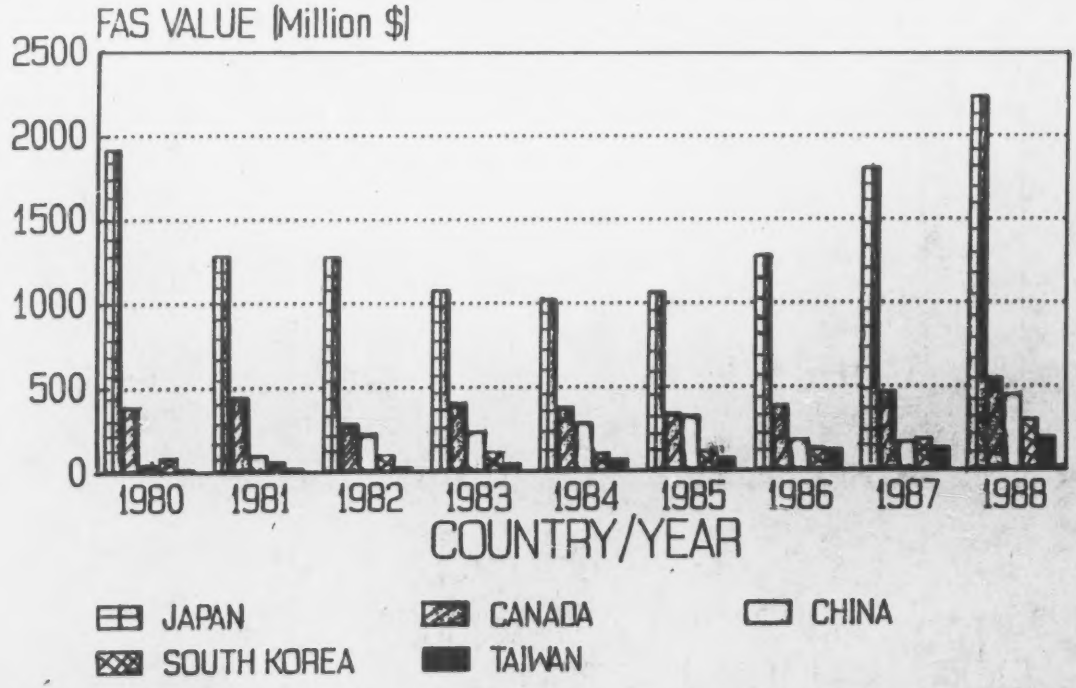
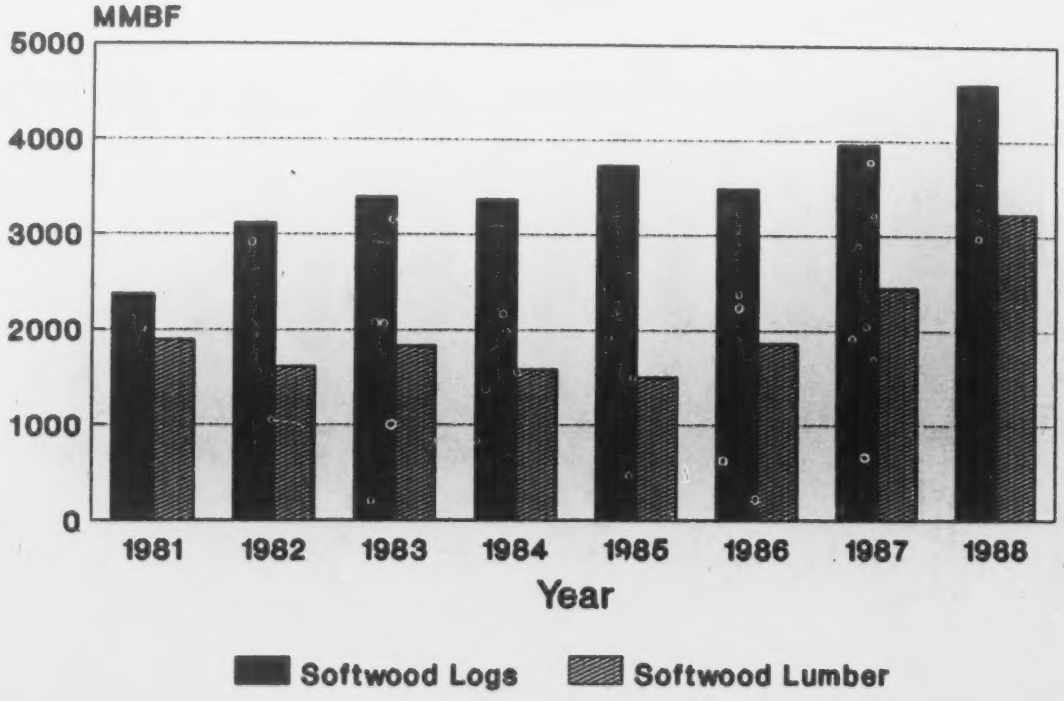


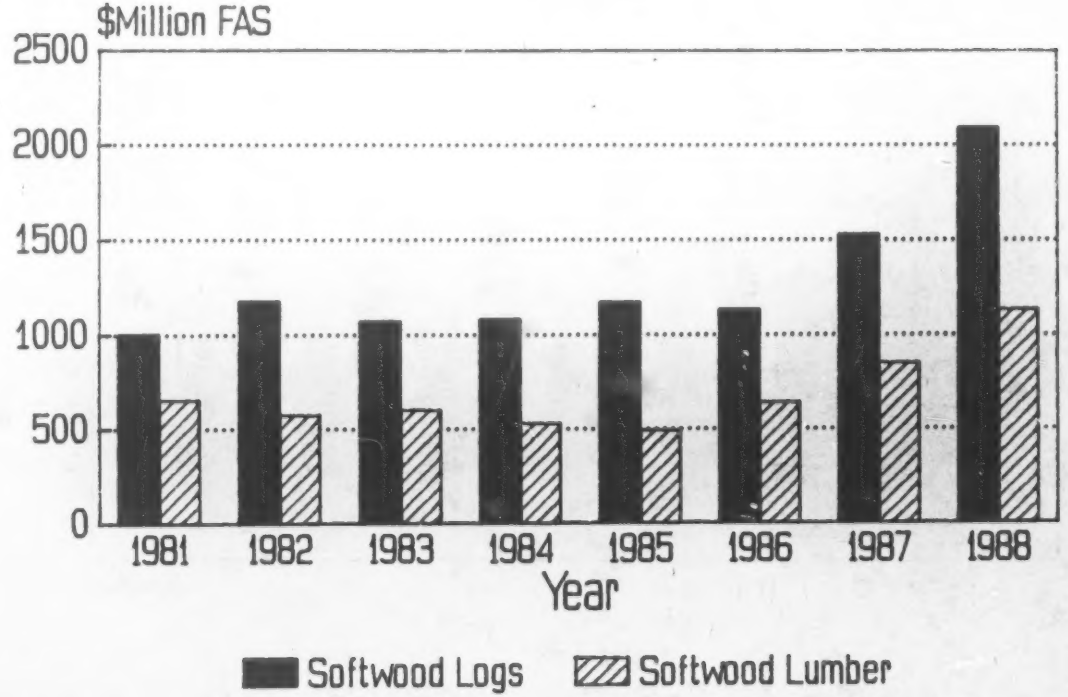
CINTRAFOR/FAS

U.S. Softwood Exports by Volume
1981-88



CINTRAFOR/FAS

U.S. Softwood Exports by Value
1981-88



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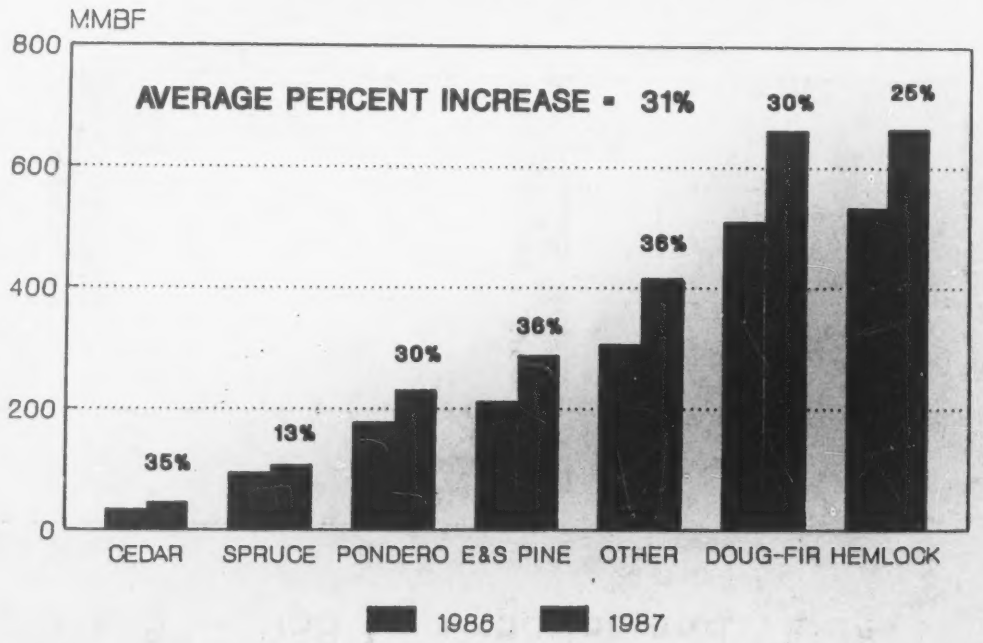
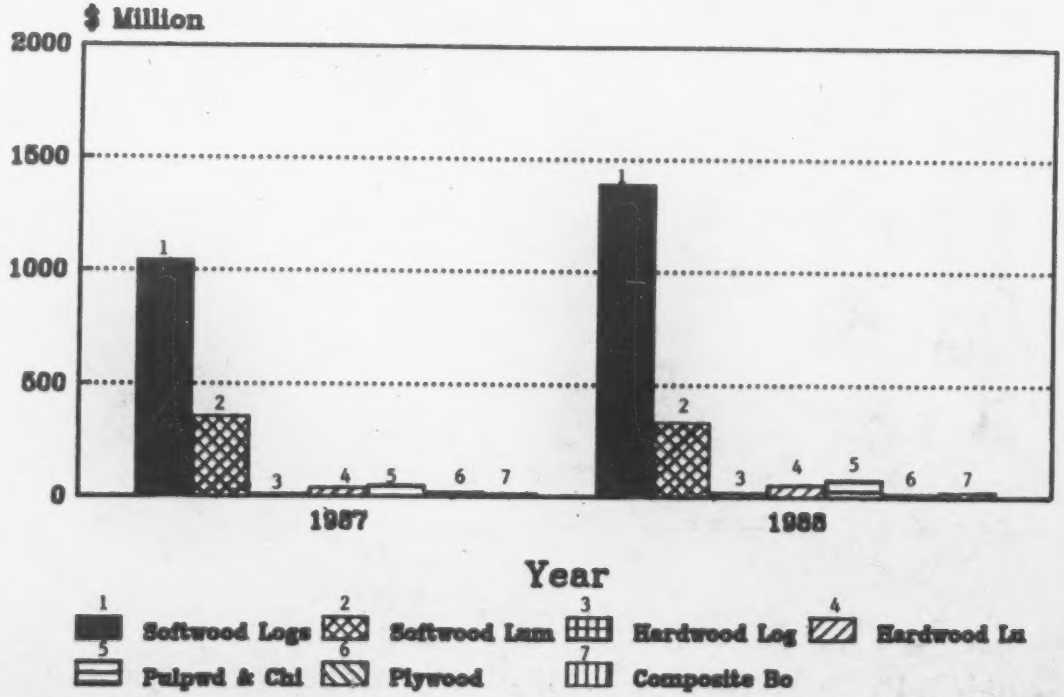
U. S. SOFTWOOD LUMBER EXPORTS BY SPECIES, 1986 & 1987



SOURCE : RANDOM LENGTHS

Washington Wood Product Exports
1987–1988 by Product and Value



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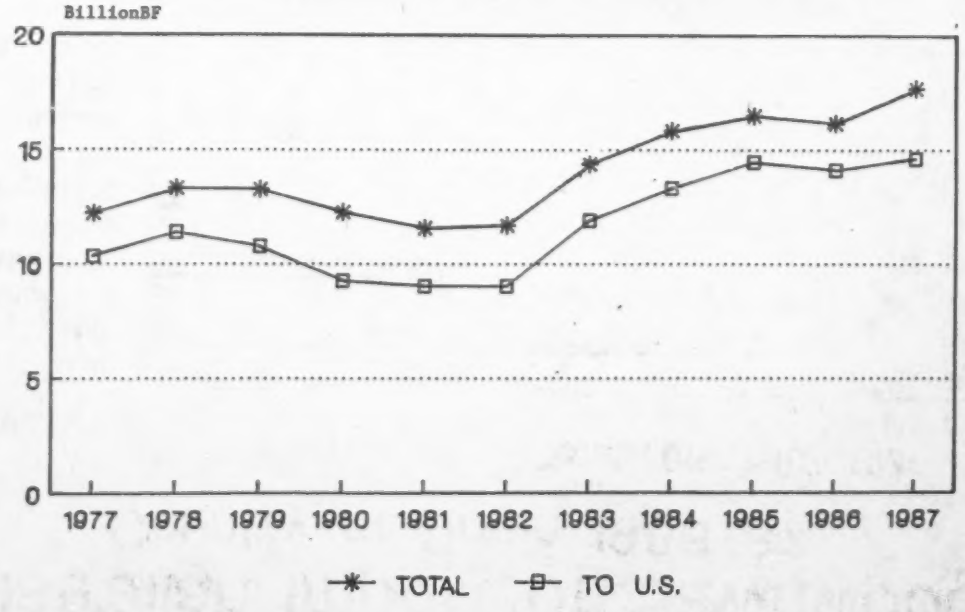
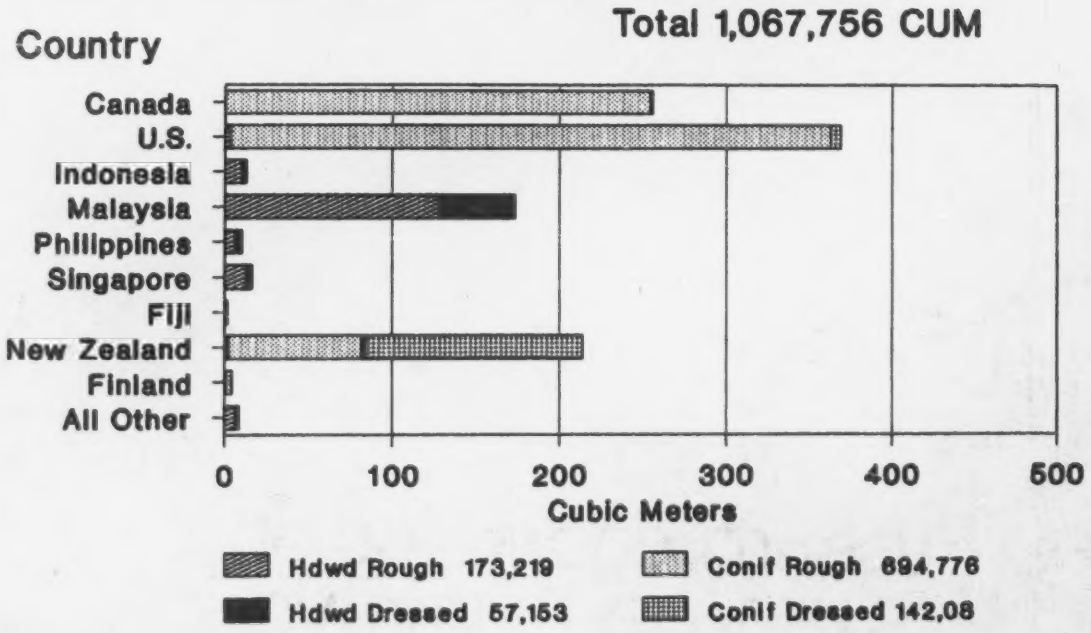
CANADIAN EXPORTS OF SOFTWOOD LUMBER



SOURCE : RANDOM LENGTHS

Australian Import of Sawnwood
Country of Origin 1986-87



CINTRAFOR/ABARE

AUSTRALIAN IMPORT OF SAWNWOOD
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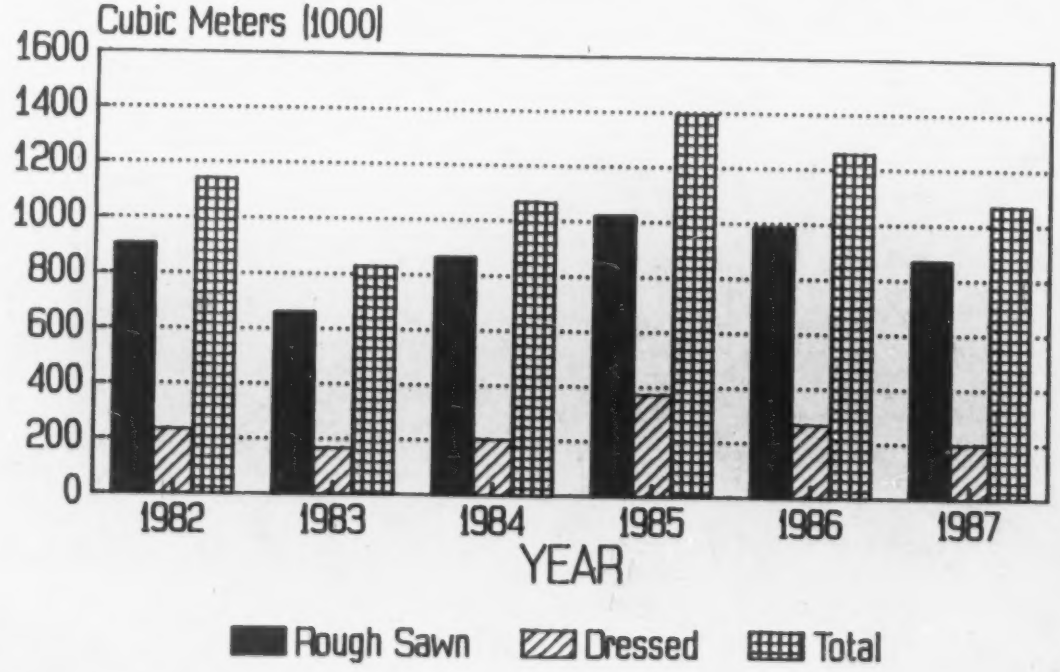
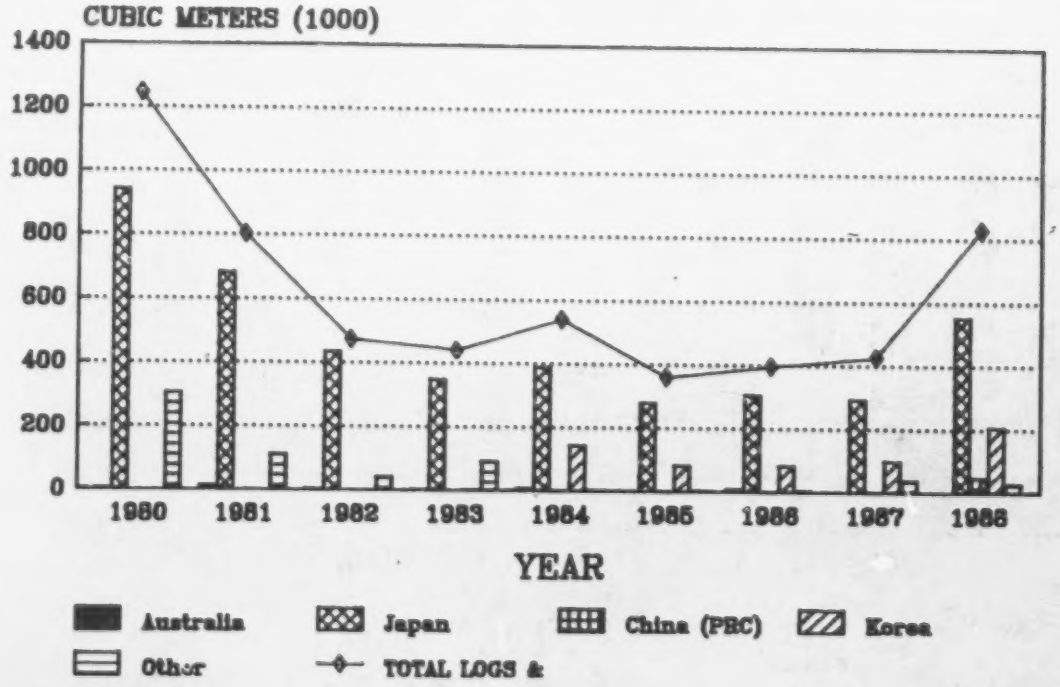


CINTRAFOR/ABARE

NEW ZEALAND LOG EXPORTS
1980–88



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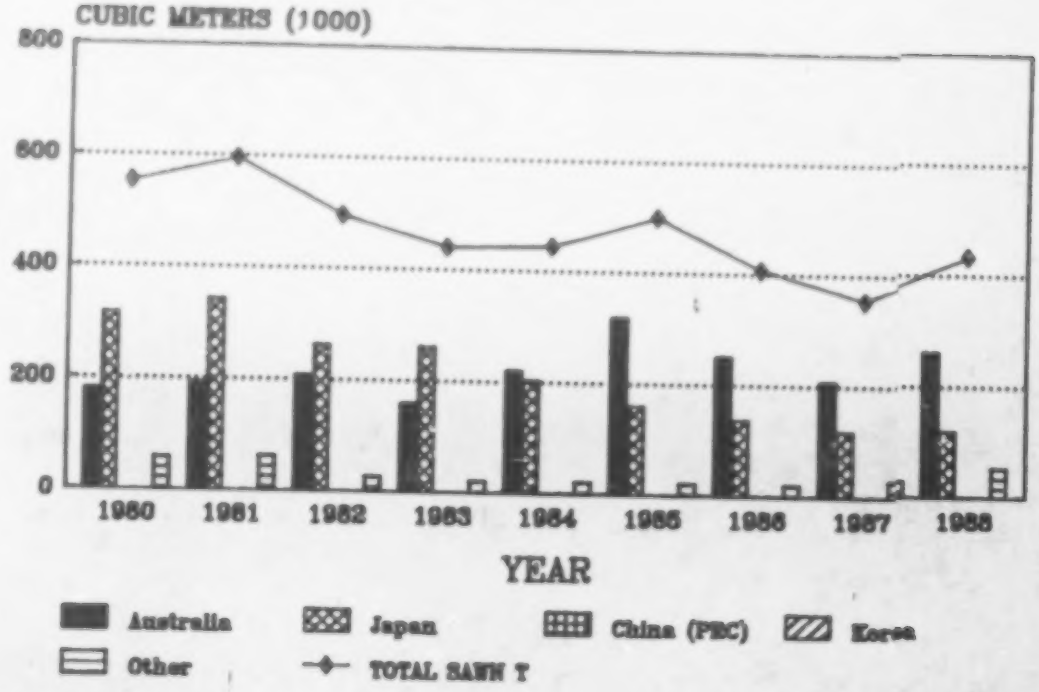

CINTRAFOR/NZMOF

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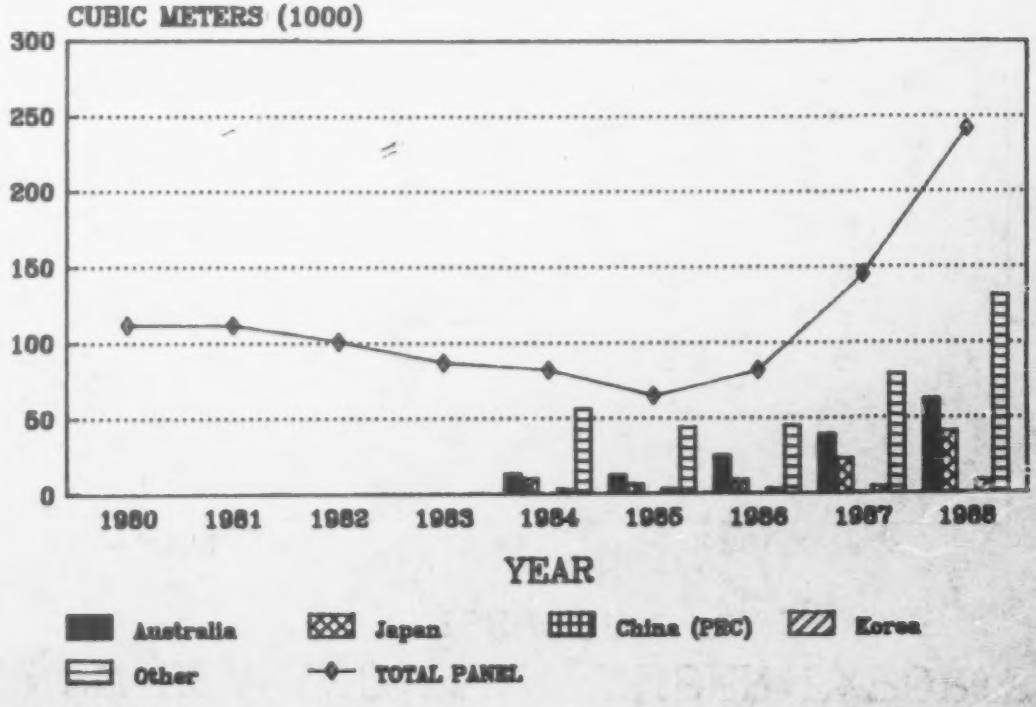

CINTRAFOR/NZMOF

JAPANESE LOG IMPORTS
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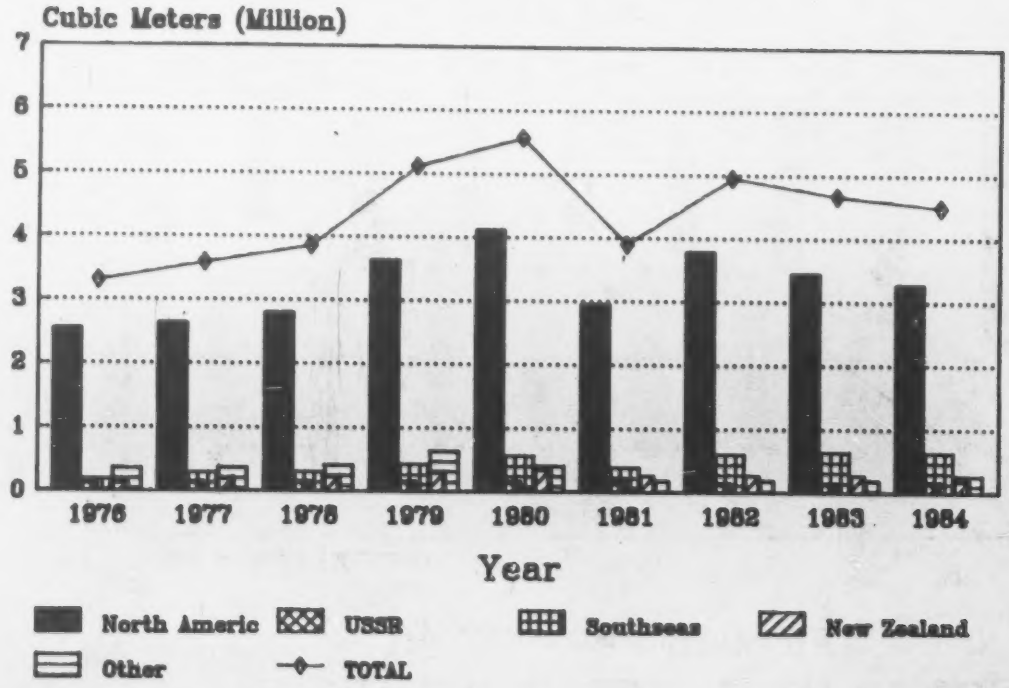
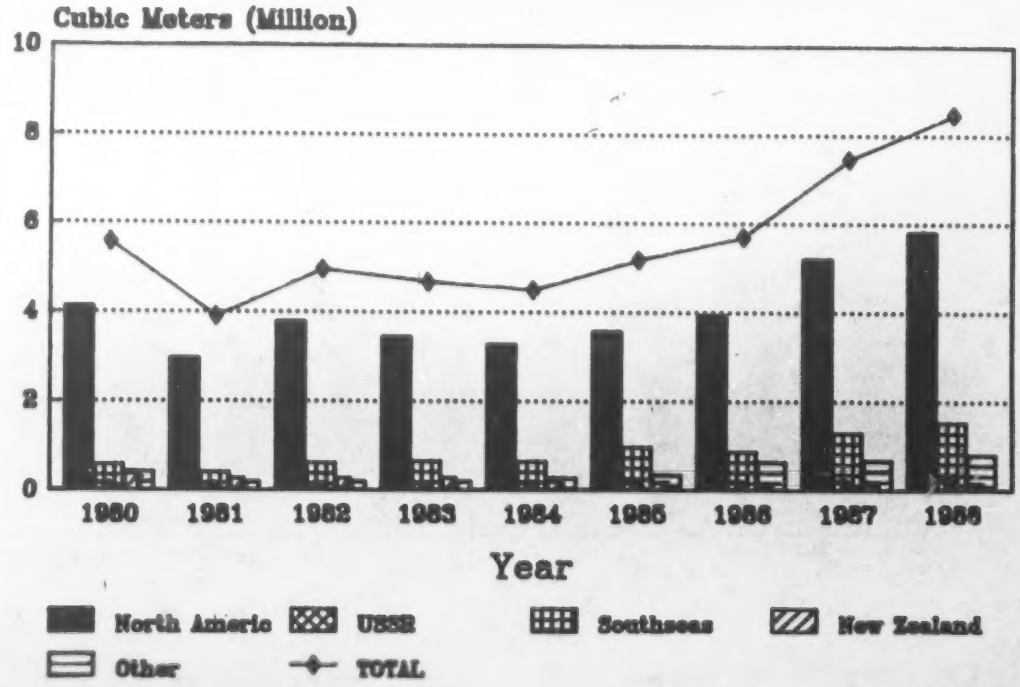


Source: CINTRAFOR/Pac Rim Log Mkt Rept

JAPANESE LUMBER IMPORTS
By Source 1980–88



Source: CINTRAFOR/Japan Lbr Rept.

INFLUENCES ON CHINA'S WOOD DEMAND
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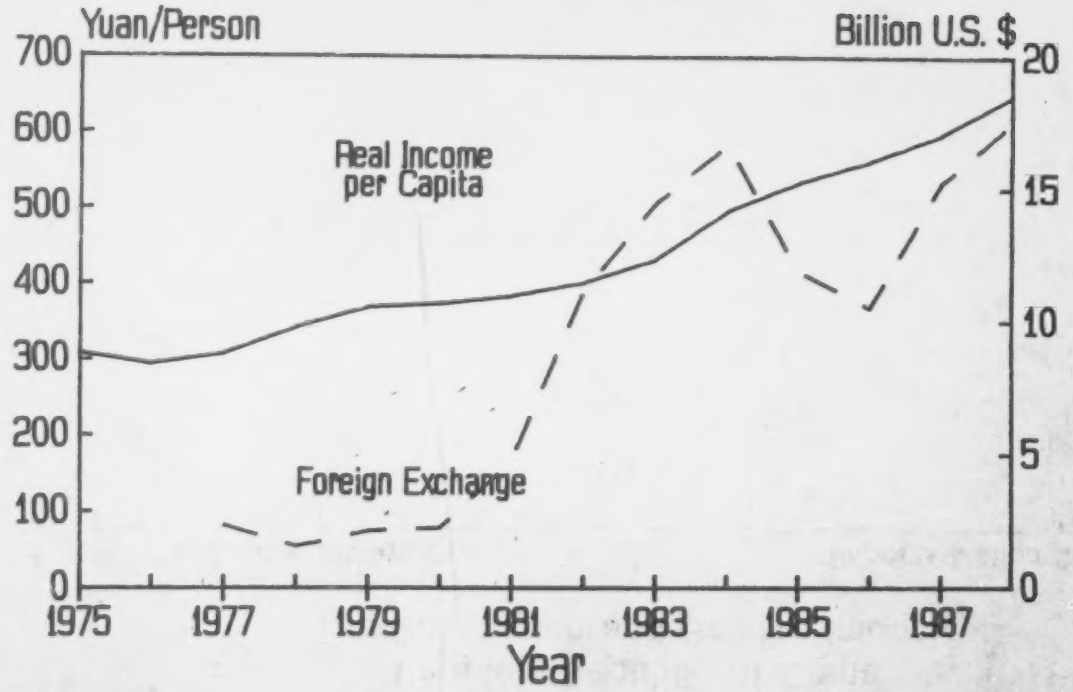

USFS/CINTRAFOR

People's Republic of China
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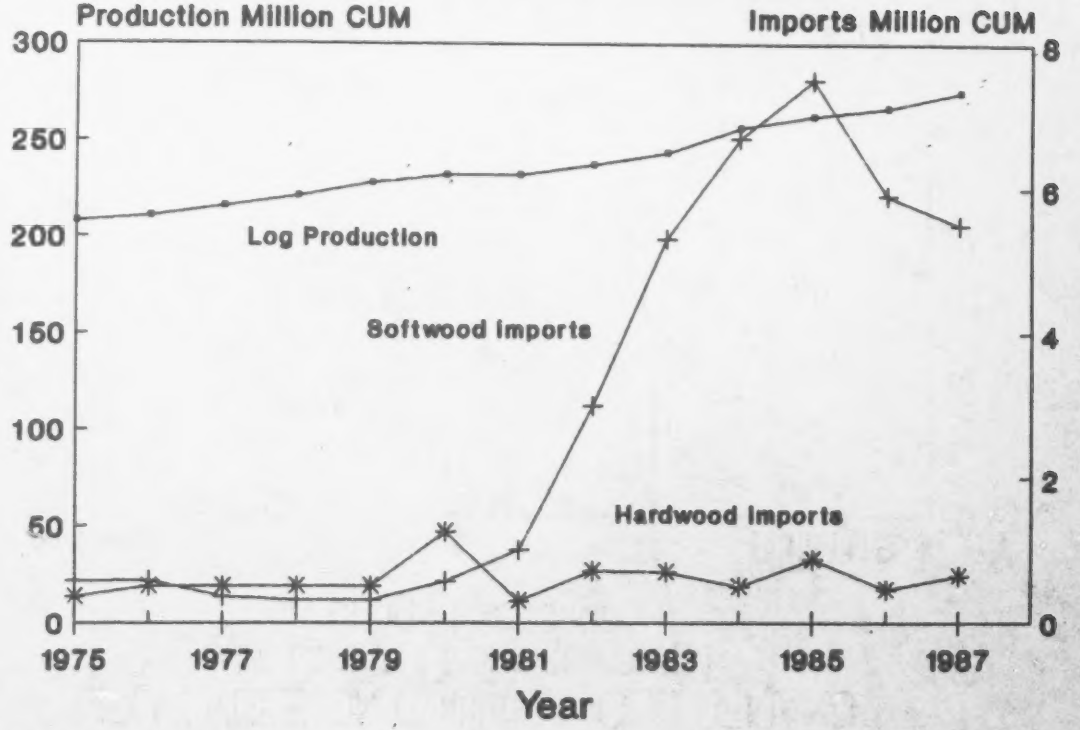

USFS/CINTRAFOR

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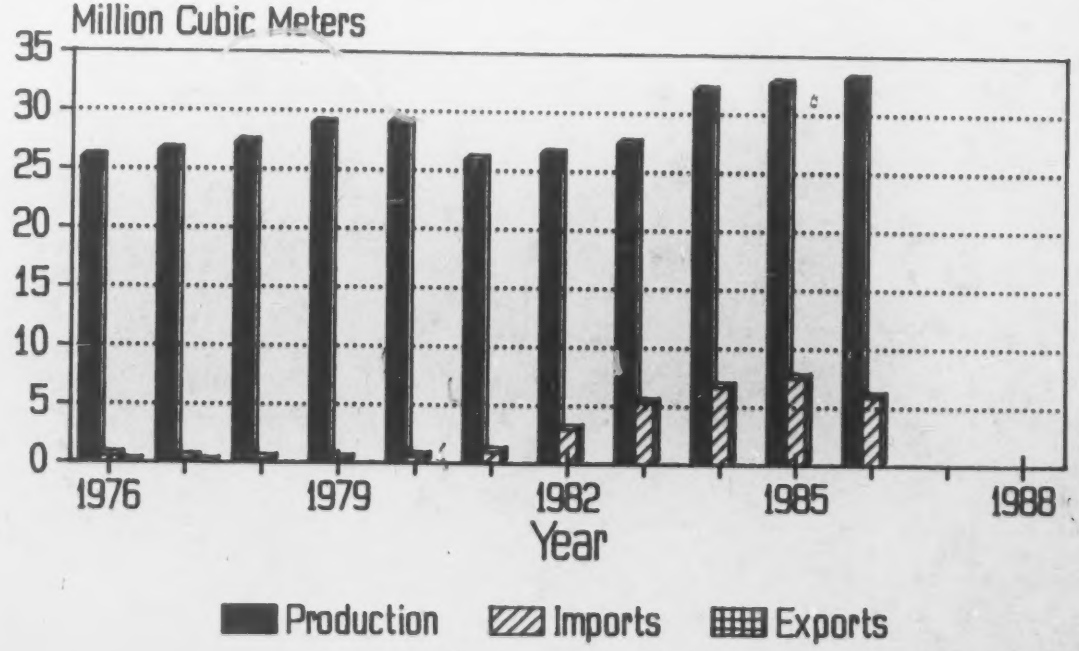
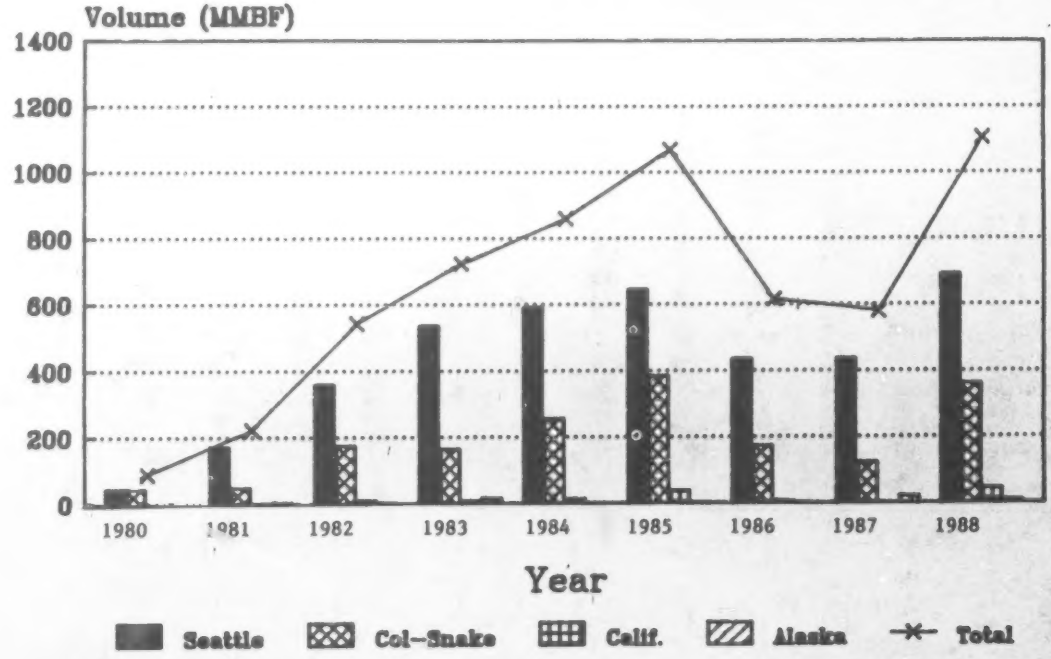


CINTRAFOR/FAO

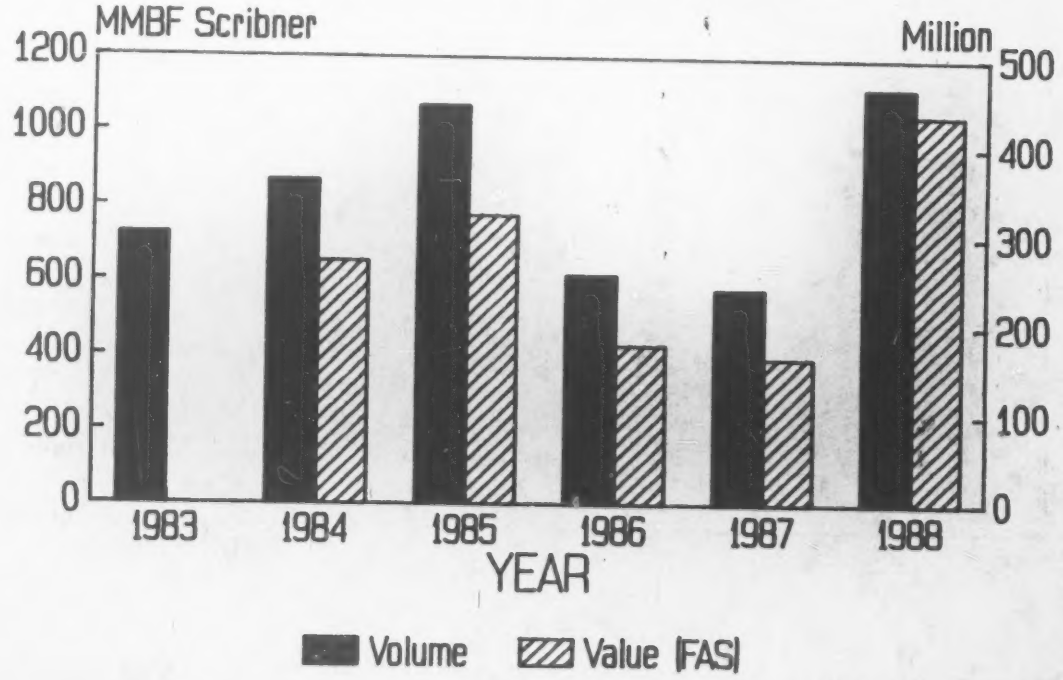
Western US Log Exports to PRC 1980–88

Volume By US Customs District



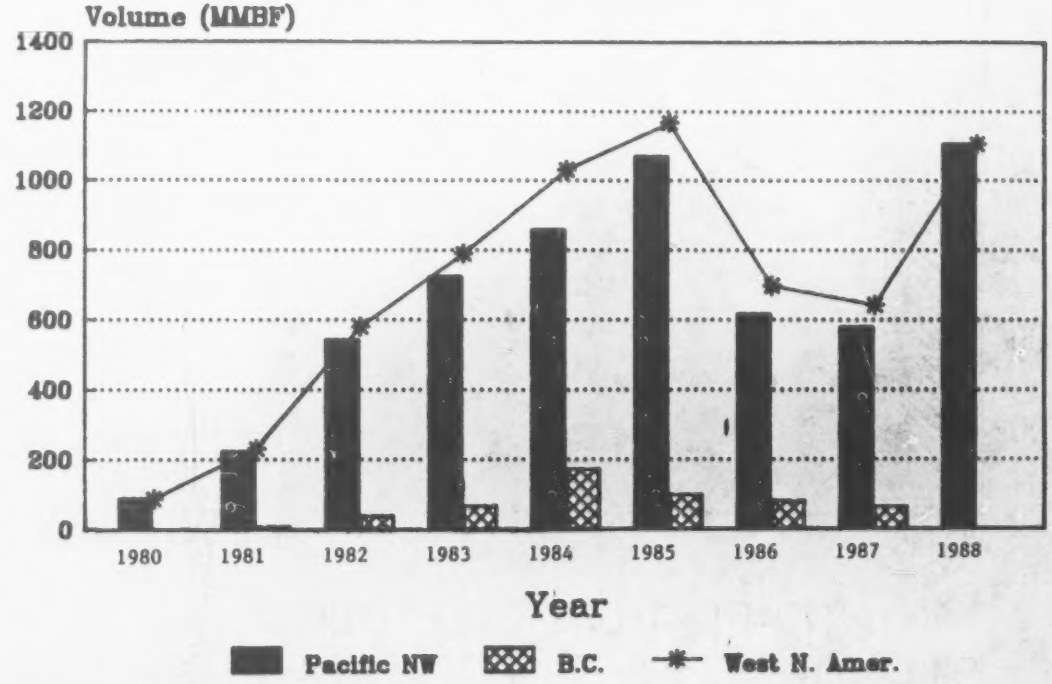
CINTRAFOR/US Dept Comm

US Softwood Log Exports to PRC
Volume and Value 1983-88



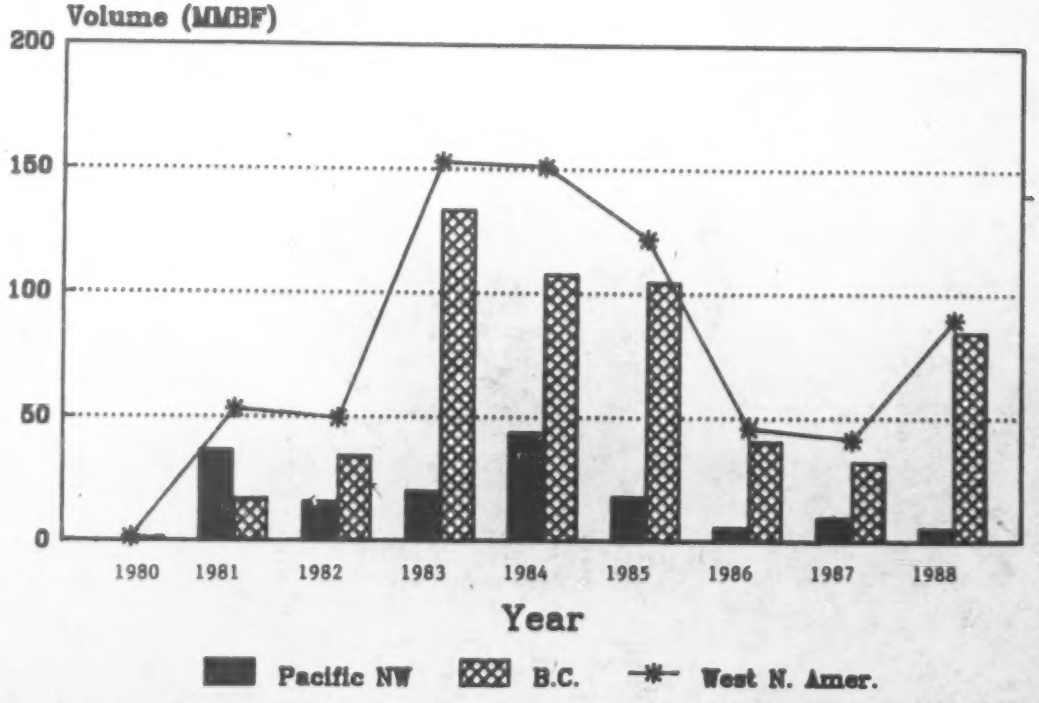
CINTRAFOR/FAS

West.North American Softwood Log
Exports to PRC 1980–1988



CINTRAFOR/USFS/Stat Canada

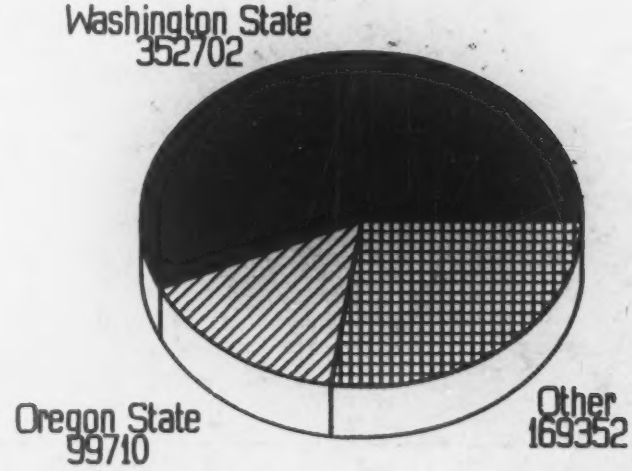
West. North American Softwood Lumber Exports to PRC 1980–1988



CINTRAFOR/USFS/Stat Canada

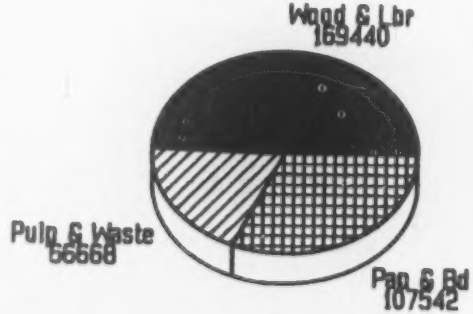
US Forest Products Exports to China by Source 1988

Total $621.8 Million



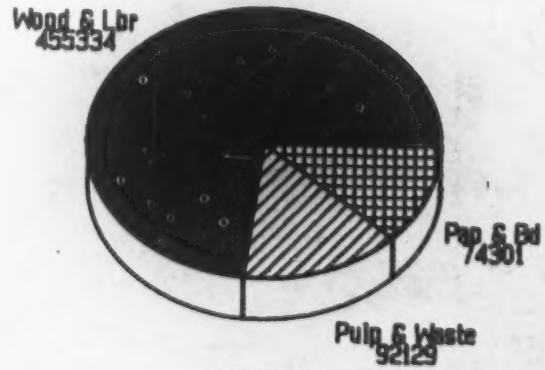
CINTRAFOR/US Dept. Comm.

US Forest Products Exports
People's Republic of China 1987-1988



1987
Total $343.7 Million

+ 81%

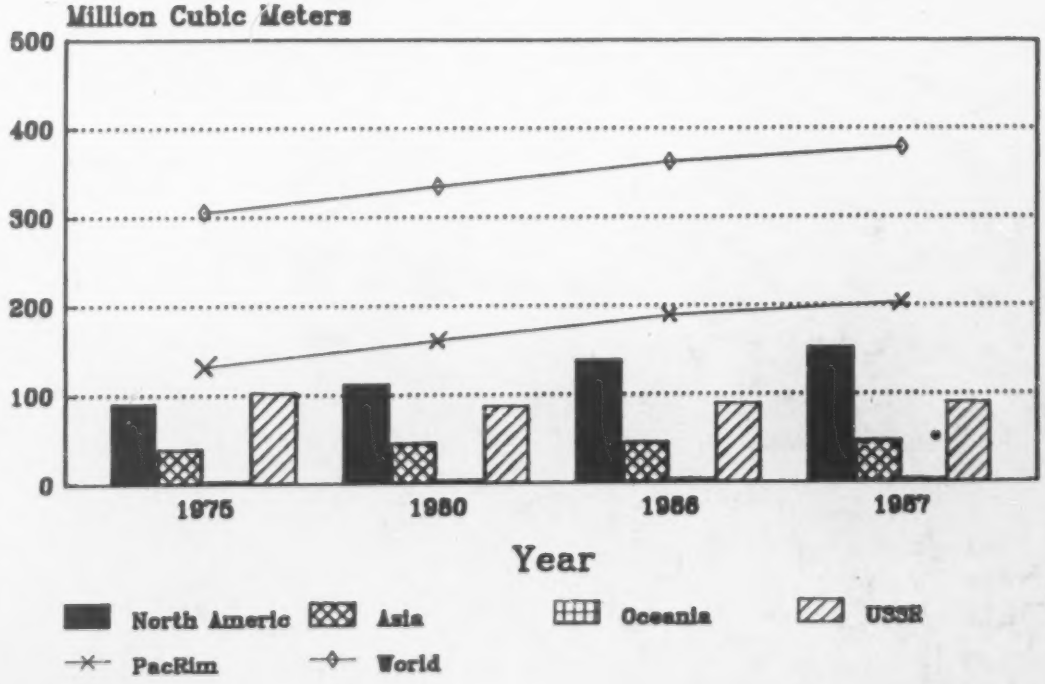


1988
Total $621.8 Million

CINTRAFOR/US Dept. Commerce

Pacific Rim and World

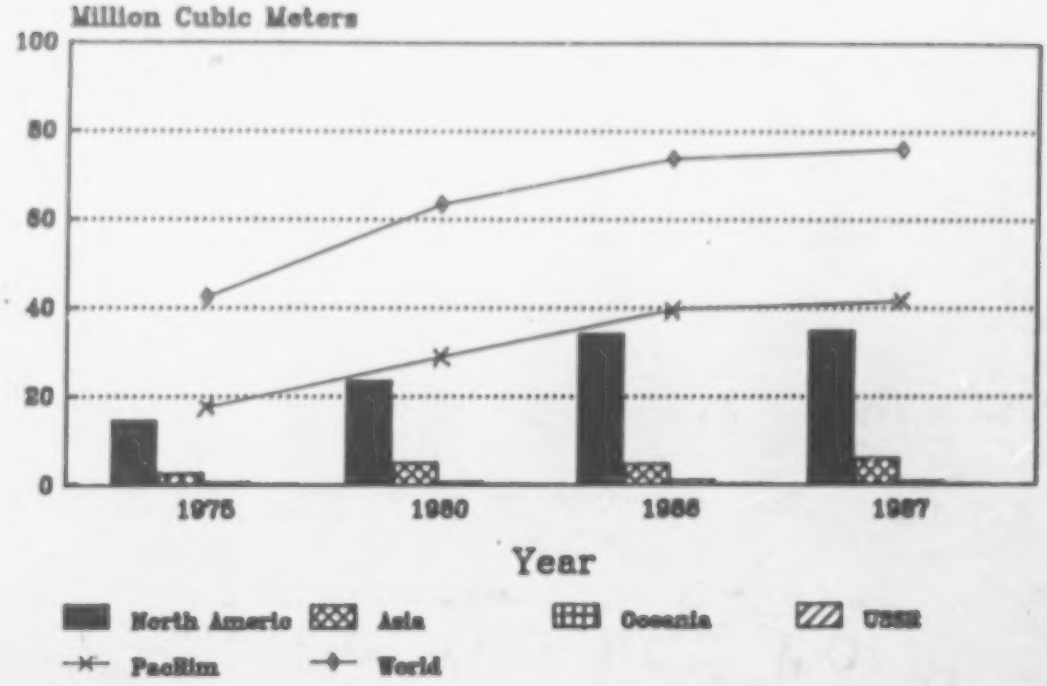
Conifer Sawnwood Production 1975–87



CINTRAFOR/FAO

Pacific Rim and World

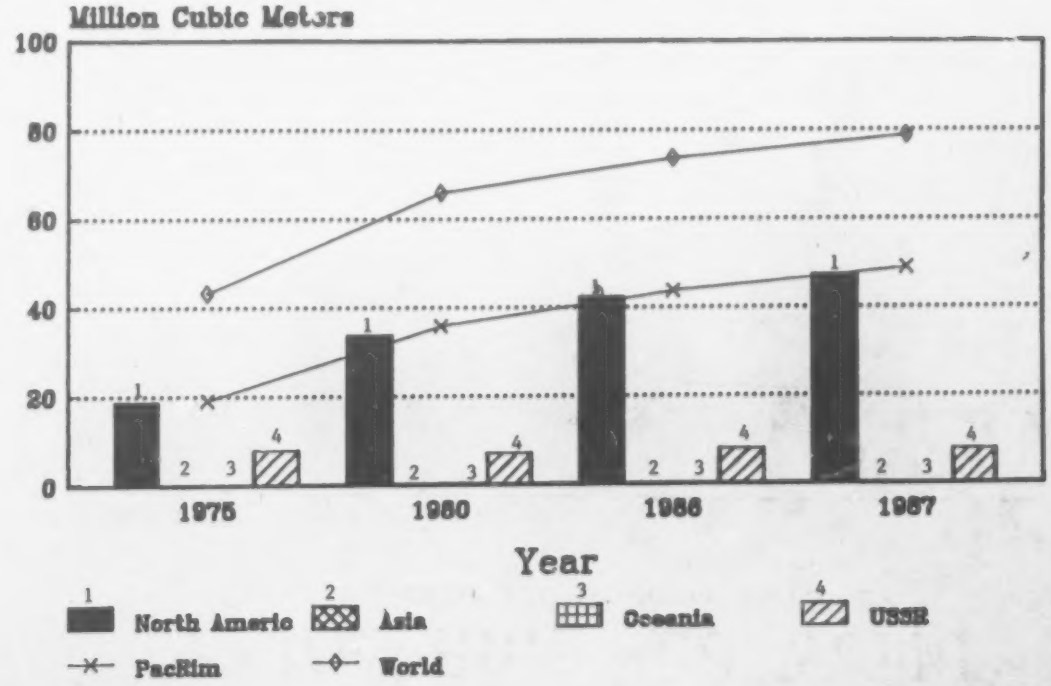
Conifer Sawnwood Imports 1975–87



CINTRAFOR/FAO

Pacific Rim and World

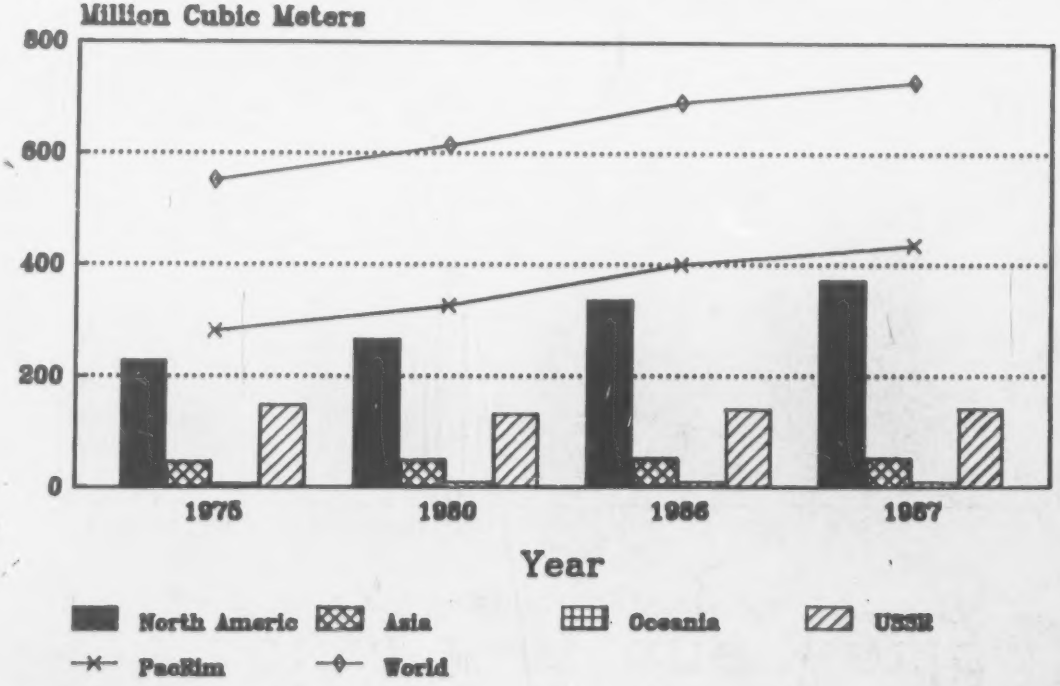
Conifer Sawnwood Exports 1975–87



CINTRAFOR/FAO

Pacific Rim and World

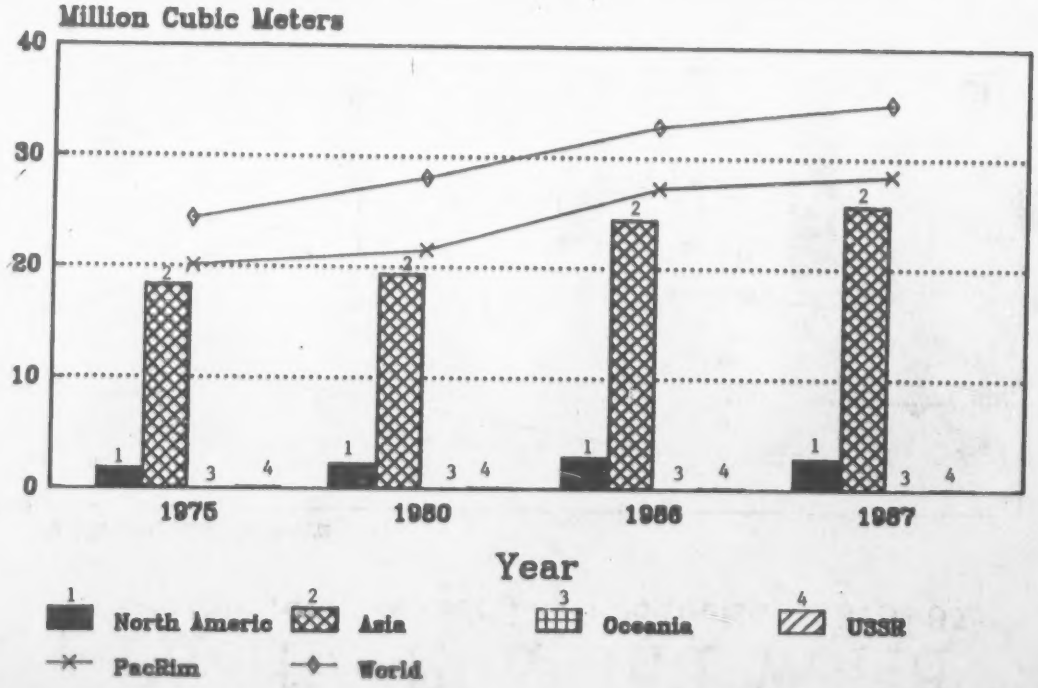
Conifer Saw/Veneer Log Production 1975–87



CINTRAFOR/FAO

Pacific Rim and World

Conifer Saw/Veneer Log Imports 1975–87



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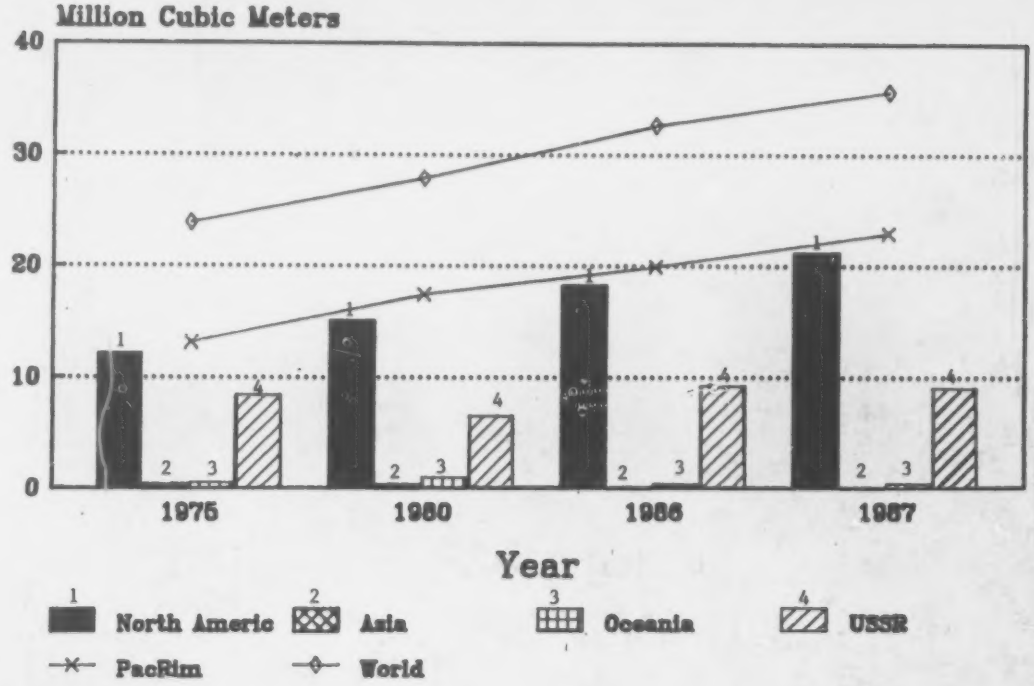
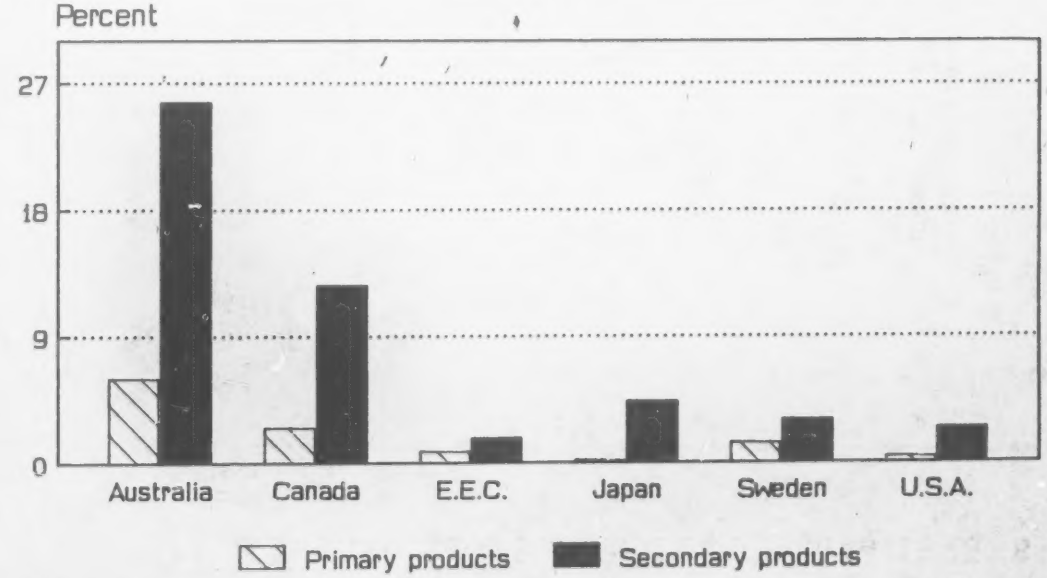
Pacific Rim and World

Conifer Saw/Veneer Log Exports 1975–87



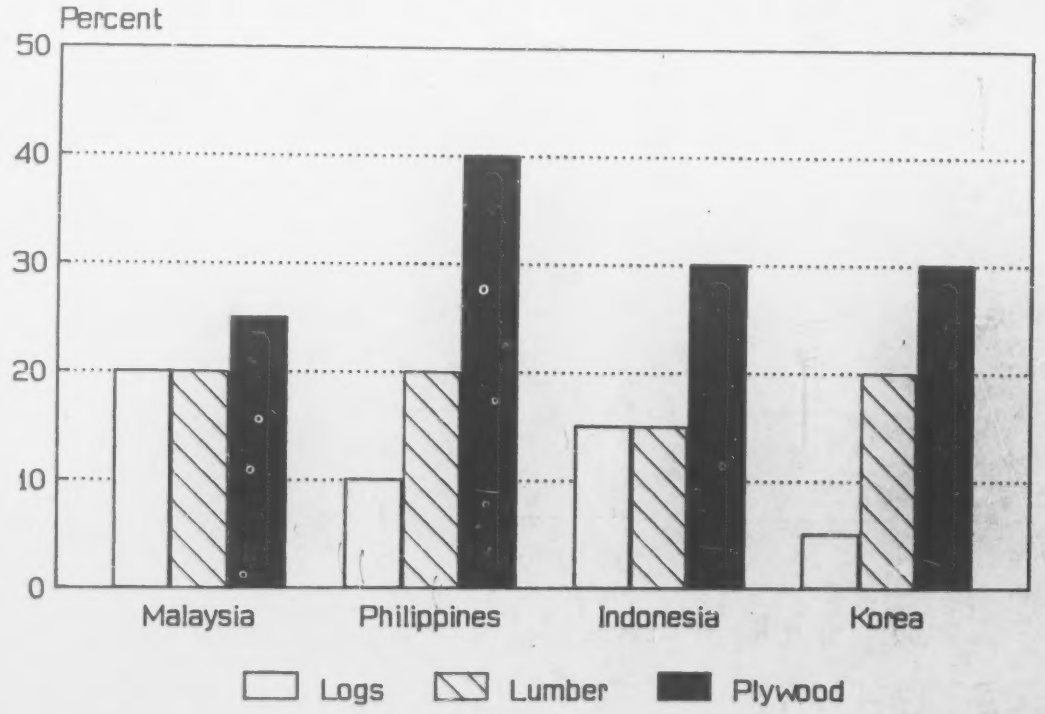
CINTRAFOR/FAO

Average Tariff Rates Facing Wood Products In Major Developed Country Markets - Post Tokyo

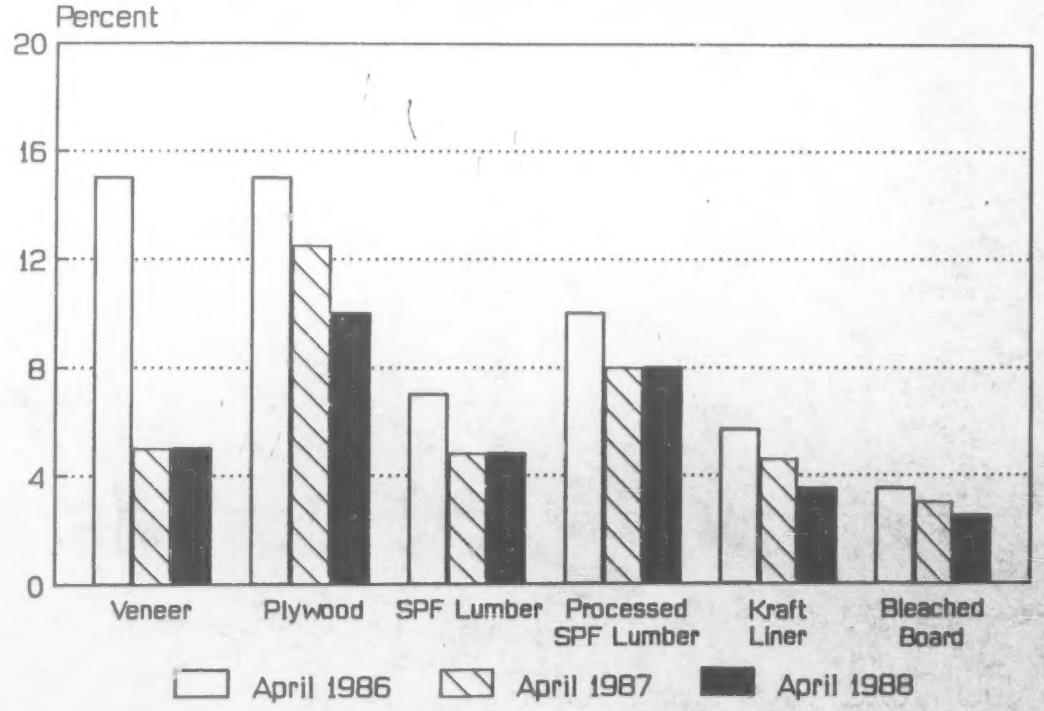


*Imports from Developed Non-Socialist Countries

Tariff Rates - Selected Developing Countries in Asia-Pacific Region



Changes in Japanese Tariff Rates for Selected Forest Products



STATEMENT OF

JOHN LEFORS, VICE PRESIDENT

WILLAMETTE INDUSTRIES, INC.

BEFORE THE

HOUSE SUBCOMMITTEE ON REGULATIONS, BUSINESS OPPORTUNITIES AND ENERGY

SENATE SUBCOMMITTEE ON FORESTRY AND CONSERVATION

TIMBER TRADE OPPORTUNITIES IN THE PACIFIC RIM FOR SOFTWOOD PRODUCTS

JULY 8, 1989

PORTLAND, OREGON

CHAIRMAN WYDEN: CHAIRMAN FOWLER, MEMBERS OF THE SUBCOMMITTEES; I AM JOHN LEFORS, VICE PRESIDENT OF WILLAMETTE INDUSTRIES INC. MY COMPANY OPERATES 70 PLANTS IN 17 STATES AND MANAGES OVER 1MM ACRES OF TIMBERLAND. MY PRIMARY RESPONSIBILITY IS THE MANAGEMENT OF FOUR PARTICLEBOARD PLANTS; A MEDIUM DENSITY FIBERBOARD PLANT AND A STRUCTURAL I-JOIST PLANT. THESE OPERATIONS ARE IN OREGON, LOUISIANA AND ARKANSAS AND EMPLOY 850 PEOPLE.

I APPRECIATE THE OPPORTUNITY TO APPEAR TODAY TO DISCUSS TIMBER INDUSTRY TRADE OPPORTUNITIES IN THE PACIFIC RIM.

OUR PRODUCTS ARE SHIPPED TO TAIWAN, KOREA, JAPAN AND CHINA. WE FEEL THAT THE MARKETS IN THESE COUNTRIES REPRESENT THE HIGHEST POTENTIAL FOR PURCHASE OF WOOD PRODUCTS IN THE PACIFIC RIM. WE ARE FINDING INCREASINGLY STRONG MARKETS FOR MANUFACTURED PRODUCTS IN ALL OF THESE COUNTRIES DESPITE EXISTING TRADE BARRIERS AND INCREASING FREIGHT COSTS.

FOR EXAMPLE; RECENTLY WE SHIPPED A 22 CONTAINER ORDER FOR OUR FIRE-RETARDANT PARTICLEBOARD. THESE PRODUCTS WERE USED TO REFURBISH A HOTEL IN BEIJING. WE HAVE RECEIVED SUBSEQUENT ORDERS FOR NON-FIRE RETARDANT PARTICLEBOARD WHICH INDICATES A NEED FOR HIGHER QUALITY PRODUCTS THAN CAN BE OBTAINED ELSEWHERE. WE EXPECT ADDITIONAL ORDERS FOR OUR FIRE-RETARDANT PRODUCT ALSO.

CHINA IS A RECENT MARKET FOR OUR PARTICLEBOARD AND WE INTEND TO CONTINUE TO PROMOTE OUR VALUE-ADDED PRODUCTS.

TAIWAN AND KOREA REPRESENT EXCELLENT MARKETS FOR OUR PRODUCTS BECAUSE THEY HAVE DEVELOPED FURNITURE AND CABINET PRODUCING INDUSTRIES AND LITTLE PARTICLEBOARD OR MEDIUM DENSITY FIBERBOARD PRODUCTION CAPACITY. WE HAVE SHIPPED TO THESE MARKETS FOR SIX YEARS. THE VOLUME HAS STEADILY INCREASED.

JAPAN HAS THE GREATEST POTENTIAL FOR OUR PRODUCT ALTHOUGH IT HAS A RELATIVELY LARGE PARTICLEBOARD INDUSTRY. THE PREDOMINANT JAPANESE DOMESTIC PRODUCT SIZE IS 3' X 6'; A VERY POOR UTILIZATION FOR MOST U.S. PRODUCERS. TO ADDRESS THIS ISSUE, WILLAMETTE INDUSTRIES IS BUILDING A PARTICLEBOARD PRODUCTION LINE IN OREGON WHICH WILL PRODUCE THIS SIZE EFFICIENTLY.

WE EXPECT MEDIUM DENSITY FIBERBOARD AND PARTICLEBOARD TO BE AMONG FUTURE LEADERS IN WOOD PRODUCTS EXPORTS. WE CURRENTLY SHIP M.D.F. FROM ARKANSAS TO EUROPE; THE MEDITERRANEAN; AND THE PACIFIC RIM. I DON'T THINK OF CENTRAL ARKANSAS AS THE IDEAL EXPORT LOCATION; BUT IT WORKS. OUR EXPORTED PARTICLEBOARD IS PRIMARILY SHIPPED FROM OREGON.

IN ADDITION TO THESE PRODUCTS, WE EXPECT GROWTH IN EXPORTS OF STRUCTURAL PANEL PRODUCTS, GLULAM BEAMS, LAMINATED VENEER LUMBER (L.V.L.) AND WOOD I-JOISTS. ALL OF THESE PRODUCTS ARE MANUFACTURED IN THE NORTHWEST IN EFFICIENT COMPETITIVE PLANTS.

I BELIEVE OUR INDUSTRY'S PRODUCTS AND MANUFACTURING CAPABILITIES CAN ADDRESS MARKETING OPPORTUNITIES IN THE PACIFIC RIM FOR THE FORESEEABLE FUTURE. WE PRODUCE PRODUCTS WHICH CUSTOMERS IN JAPAN, TAIWAN, KOREA AND CHINA UTILIZE. WE MANUFACTURE A VARIETY AND QUALITY NOT AVAILABLE FROM OTHER SOURCES.

HISTORICALLY, U.S. PRODUCERS HAVE BEEN ERRATIC IN THEIR SUPPORT OF THIS MARKET. IN RECENT YEARS, WE HAVE SEEN A MORE CONTINUOUS COMMITMENT TO SERVICE THESE MARKETS. THIS COMMITMENT AND A REDUCTION IN TARIFF AND NON-TARIFF BARRIERS WILL PROVIDE GREATLY INCREASED SALES OPPORTUNITIES.

I SUPPORT THE RECENT U.S. GOVERNMENT ACTION WITH REGARD TO JAPAN. OUR EXPERIENCE IS THAT ONLY THIS TYPE OF LEVERAGE WILL BRING ACTION. THIS TRADE POLICY WILL PRODUCE RESULTS. IT WILL OPEN MARKETS AND PROVIDE NEW OPPORTUNITIES FOR THE MARKETING OF U.S. WOOD PRODUCTS.

AT THIS POINT IN TIME, I THINK TRADE BARRIERS ARE EFFECTIVELY THE ENTIRE ISSUE. AT SOME POINT IN THE FUTURE; WHEN WE HAVE INCREASED OUR SALES SIGNIFICANTLY, WE CAN LOOK AT "CUSTOMIZING" PRODUCTS FOR THIS MARKET. SUCH ITEMS AS PACKAGING; SPECIALIZED PRODUCTS; VALUE-ADDED AND SEMI- (OR FULLY) FINISHED PRODUCTS COULD PRODUCE SIZEABLE SALES.

GOVERNMENT PROGRAMS DO HELP TO CREATE NEW MARKETS FOR OUR WOOD PRODUCTS. I URGE CONTINUED SUPPORT FOR T.E.A. AND F.A.S. PROGRAMS.

THE U.S. WOOD PRODUCTS INDUSTRY IS COMPETITIVE AND AGGRESSIVE. WITH REASONABLE ACCESS TO THESE MARKETS, WE COULD DRAMATICALLY INCREASE EXPORTS OF ALL OUR PRODUCTS. WE PRODUCE VERY HIGH QUALITY PRODUCTS. THE WIDE VARIETY OF PRODUCTS WE PRODUCE IS DESIRED AND ESSENTIAL TO THE GROWING PACIFIC RIM MARKETS. THE WOOD PRODUCTS INDUSTRY-REPRESENTS AN EXCELLENT EXPORT OPPORTUNITY FOR THE UNITED STATES.

THANK YOU FOR THE OPPORTUNITY TO TESTIFY. I WILL TRY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

PRESENTATION TO A JOINT FIELD HEARING OF THE

HOUSE SUBCOMMITTEE ON REGULATION,

BUSINESS OPPORTUNITIES & ENERGY AND

SENATE AGRICULTURE SUBCOMMITTEE ON FORESTRY AND CONSERVATION

PORTLAND CITY HALL
PORTLAND, OREGON
JULY 8, 1989

Good morning, my name is Bud Stewart. I'm Public Affairs Coordinator for Bohemia Inc., a forest products manufacturing company headquartered in Eugene, Oregon. Thank you for inviting us to appear before you and give our perspective on some international trade matters.

If you haven't heard of Bohemia Inc., let me take a minute to tell you that we're a medium sized, diversified, publicly owned company operating 14 (soon to be 15) manufacturing plants in Oregon and California. We employ some 2,700 people, and in the fiscal year just ended we posted sales of $306 million, nearly all of that in products of our own manufacture. We make softwood lumber, veneer, plywood, particleboard, glue laminated beams and timbers, medium density fiberboard and pulpwood chips.

As you might expect, marketing is an essential ingredient of Bohemia's success over the years, and more recently, export markets have become of great importance to us. Export sales now amount to 15% of our total forest products sales, and we hope to raise that figure to 20% in the next two years. Historically, export markets have provided a dimension of stability to forest products markets, which for many years have been plagued by boom and bust cycles. They also create important markets for high grades of lumber and plywood which cannot always be absorbed by domestic markets at price levels reflecting our cost of the raw material.

INTRODUCTION

In the Pacific northwest of the United States, the forest products industry is one of the region's most important industries, creating direct and indirect employment and providing economic vitality for hundreds of communities and hundreds of thousands of people. Similarly, forest products are some of the most significant commodities being exported from the Pacific northwest.

Washington State forest product exports were worth about $1.8 billion during 1988, with Oregon forest product exports a close second at $1.65 billion. During the same year, Alaska also

exported hundreds of millions of dollars of forest products. Principal importers of wood products from the United States are the following Pacific Rim countries: Japan, China, South Korea, Taiwan and Australia.

Following grain, logs/timber products, paper/paper products and lumber/lumber products ranked as the next three most valuable commodities exported from Oregon during 1988.

From Washington state, Japan imported $851 million worth of logs in 1988, more than any other Washington product except aircraft. Lumber imports ranked sixth of all product categories at $235 million. More logs were exported to China than any other Washington product and they were the fourth most imported commodity into South Korea.

Your letter inviting us to this hearing asks for our perspective on forest products trade in Pacific Rim markets, and you have asked us to address a list of seven questions. I'll speak to your questions one by one.

1. **Please identify for us and give your general views of the Pacific Rim markets which demonstrate the highest potential for purchase of U.S. wood products, regardless of trade impediments which may now exist.**

Pacific Rim countries with the greatest market opportunities for use of finished U.S. wood products are Japan and Australia, and possibly Taiwan and South Korea if significant price advantages can be demonstrated for wood construction over steel, concrete and masonry.

In the case of Japan, products with the greatest growth potential are those used in heavy timber construction, materials custom-cut to Japanese sizes and specialty goods. As respects Australia, U.S. wood products used in heavy timber construction are seen by us to be in a very favorable position for taking advantage of an expanding market. Australia's immense growth potential plus their relatively great wealth make it an exciting country in which to do market development work.

2. **Which U.S. products may be future leaders in these markets (plywood and veneers? glulam beams? laminated lumber?).**

Showing the greatest potential is large dimension structural laminated timbers (commonly called "glulam beams and timbers", or just "glulam"), a product line which is at the vanguard of the rapidly developing heavy timber construction market in Japan. Demand for laminated timber for fixtures

and structural components has been increasing in Japan since 1950. However, Japanese use of large dimension material in heavy timber construction did not begin in earnest until 1983.

Statistics demonstrating the rapid increase in the use of large dimension glulam in Japan are as follows:

YEAR	DOMESTIC PRODUCTION	PERCENT INCREASE
1983	284 cubic meters	- - -
1984	569 cubic meters	200 percent
1985	1,222 cubic meters	215 percent
1986	3,019 cubic meters	247 percent
1987	6,534 cubic meters	216 percent

Japan is said to have imported only about 5 cubic meters of all types of glulam from the United States in 1986. In the first nine months of 1987, this figure was put at 900 cubic meters. Domestic production and import figures for 1988 are not yet available; however, it is known that one U.S. manufacturer shipped more than 2,000 cubic meters (888,000 board feet) of large dimension structural laminated timbers to Japan in 1988. Another manufacturer is known to have shipped at least 1,125 cubic meters.

American structural glulam material is being used in construction of Japanese factories, exposition sites, school gymnasiums, retail stores, hotels, houses, etc. The largest wooden structure to be built in Japan in 40 years is currently being built with U.S. glulam in Nagoya, Japan. This 88,000 square foot pavilion structure is covered by 150-foot arches in a line 550 feet long. Other major projects are also known to be in the works. To put it mildly, the structural glulam market in Japan is growing by leaps and bounds.

Elsewhere in the Pacific Rim we see great potential for increased use of glulam in Australia, as well as continued demand for lumber there. And China, with a population of over one billion, can't be ignored much longer as a future market for manufactured forest products such as glulam.

Other products, such as structural laminated veneer lumber, structural panels and structural plywood may also be able to make inroads into the heavy timber construction and wood frame construction markets. However, due to traditional Japanese views about plywood and veneer products, they may have a more difficult time penetrating those markets, especially the heavy timber construction market.

3. **How should the U.S. industry change manufacturing characteristics, product lines, promotional programs, etc., in order to address these opportunities?**

U.S. companies should approach the Japanese market after conducting a thorough market research effort on the viability of given product lines and after developing a marketing strategy. There's no substitute for good homework.

They should determine if they are producing or can develop a quality, marketable product, and if the product is already known and used in Japan. Note that word "quality." Our Japanese friends are sticklers for it. They can afford to pay for the quality they want, and they seem to be willing to do without a product rather than water down their quality expectations. American exporters should investigate potential partners, agents, distributors and customers. They should also determine where the best market entry is for the product, what relationships already exist in the Japanese market and how possible relationships could affect the various entities.

American companies wanting to enter Pacific Rim markets should have sales and production divisions that are unified

and committed. The sales division must keep in mind production capabilities and must be realistic in the orders it accepts for production. The sales division must clearly communicate customer expectations, and the production division must maintain an open minded approach regarding new products and products manufactured to different specifications.

Companies wanting to develop a long term presence in a Pacific Rim market must be committed to their product line and avoid the reputation of going in and out of the market, even if this means having to go through a significant start-up period. A "being in it for the long run" mentality is important to a good reputation in the market.

The sales force must have people on staff who are comfortable dealing with customers' foreign languages and cultural peculiarities and expectations. The production division must have proper equipment, space, production schedules and a quality-conscious, competent and motivated work force.

Many U.S. companies also fail to take advantage of opportunities because they do not fully study issues related to product packaging and containerization, export documenta-

tion, shipping schedules, foreign port services, and letters of credit and banking.

To realize the full potential of export markets, U.S. forest products companies must also develop successful strategies to deal with various barriers to product entry, such as tariffs, Japanese Agricultural Standard requirements, building code restrictions, Japanese cultural biases and perceptions and the position of the affected domestic Japanese industries regarding imported products.

4. **Recently, the U.S. government has singled out Japan as an unfair trader for its forest products trade barriers. What, in your opinion, will be the outcome of this action? How will Japanese industry and government respond? What should be the U.S. government trade policy in this area (i.e., should assertive trade actions continue along the lines of 301?)?**

Unequivocal U.S. government actions are needed to call Japan to task for unfair trade practices it has been conducting against non-Japanese manufacturers, especially against U.S. exporters of finished wood products.

Japanese government officials have repeatedly demonstrated

that they only respond to pressure, primarily from domestic sources. Also, Japanese politicians have a difficult time explaining to their constituents that a previously sheltered market must be opened. The only thing that can mitigate this problem to a degree is for a politician to show that he is being forced to do so by a foreign government.

Foreign governments have no choice but to take retaliatory actions unless and until unfair trade activities are halted. As we have witnessed with the telecommunications issue that was recently resolved after being listed on the 301 agenda, Japanese government and industry will only respond after they perceive that a trade issue has become important to the U.S. government. Through the 301 process, the U.S. government is able to turn the spotlight onto specific, blatant examples of unfair trade practices that have hurt U.S. exporters.

Nowhere is there a more blatant example of unfair Japanese trading practices than the tariff misclassification of U.S. structural laminated timber. Bohemia's laminating plant at Vaughn, Oregon, for example, has been certified by the government of Japan (i.e., Japanese Ministry of Agriculture, Forestry and Fisheries) as a producer of structural laminated timber for construction applications, in addition to

being certified by the American Institute of Timber Construction (AITC) and the Canadian Standards Association.

Through the AITC, the product's structural integrity is certified by all three building code agencies doing business in the United States: ICBO (International Conference of Building Officials); BOCA (Building Officials and Code Administrators International); and SBCCI (Southern Building Code Congress International), in addition to CABO (Council of American Building Officials).

Letters in Japanese and English have been sent to Japanese customs and embassy officials, along with product samples. High level discussions have been held among government officials from both sides. It was also pointed out to the Japanese officials that structural laminated timber was specifically listed as a "carpentry of wood" item under Section 44.18 (a category with a 3.9 percent tariff rate) by the "Explanatory Notes to the Harmonized System," published by the Customs Cooperation Council of Belgium.

Bohemia structural laminated timber exported abroad has been classified under Section 44.18 by all countries that it has been shipped to except Japan, namely, Australia, Canada, Greece and Saudi Arabia.

Despite these facts, Japanese customs officials have refused to recognize the material as structural and refused to assign the correct product tariff rate of 3.9 percent. Instead they have levied a rate varying from 15 to 20 percent depending on whether or not the product has been drilled with bolt holes. This high tariff rate makes U.S. made glulam products much less price competitive and is an unfair barrier to trade.

There is no doubt whatever that the only way this and other unfair trade practices will be resolved is by continued pressure from the U.S. government. Our government should definitely continue its assertive trade actions with respect to structural laminated timber and other unfairly obstructed products.

5. **Are trade barriers the whole issue, or can steps be taken by our producers which will make northwest wood products more attractive to the Japanese consumer? Please list those steps or define those products.**

Trade barriers are an important factor in any equation with regard to determining the competitiveness of U.S. products; however, U.S. companies should work harder at

custom manufacturing products to meet Japanese or other foreign specifications. Too often U.S. producers desire to sell "fall-down" items to the Japanese market, failing to understand that product quality and commitment of production are primary requirements for establishing a successful, long-term presence. Bohemia often does "custom cuts" for our Pacific Rim customers, principally the Japanese. We'll sell the customer a batch of logs at a negotiated price and saw them for him in one of our mills exactly to his specifications at a negotiated manufacturing cost. The customer gets to choose the logs he wants as well as the products he wants cut out of them, and the mill keeps the chips and other by-products. If there was ever a "win-win" in this business, this is it. American workers keep the manufacturing jobs, raw logs aren't exported and the customer gets exactly what he wants to buy.

U.S. finished wood products producers should familiarize themselves with grading rules and dimensional requirements utilized by the domestic Japanese construction industry for traditional Japanese and western style wood frame construction. They should devise ways to sell their system as a construction package rather than just an isolated component and should make sure that the end user is familiar with

correct procedures for using the product, especially if it is an item new to the Japanese market.

To what extent are federal or state government efforts effective in helping create new markets for U.S. wood products in the Pacific Rim? What changes in government-sponsored marketing efforts are indicated in the shortcomings or failures of the past?

Numerous federal government entities deserve to be commended for their efforts in helping promote exports of U.S. products, and especially forest products, to Pacific Rim nations. These include: the U.S. Embassy in Tokyo; the U.S. Customs Service's International Nomenclature Division; the U.S. Department of Commerce's Office of Forest Products and Construction; the International Trade Administration Office of Japan; the U.S. Department of Agriculture's Foreign Agricultural Service and International Affairs and Commodity Programs; the U.S. Trade Representative; and several Congressional subcommittees.

Elected officials Senator Bob Packwood, Senator Mark Hatfield, Congressman Ron Wyden, Congressman Peter DeFazio, Congressman Les AuCoin, Congressman Bob Smith and Congress

man Denny Smith have also demonstrated their commitment to forest products export marketing concerns.

At the state level, both the Oregon Department of Economic Development and the Washington Department of Trade and Economic Development have been active in support of forest products exports. Our thanks also go to Governor Goldschmidt for his work leading trade delegations to the far east.

It's our hope that government entities will continue to show the same type of commitment to forest products that they have shown in the past year and that U.S. government efforts will continue to put pressure on the Japanese government to change antiquated building and fire code restrictions.

We neither expect nor want our government to be doing the things that are properly our responsibility - things that relate specifically to sales, market development, financing, shipping, etc. And because we operate in a competitive environment we also don't think our governments should be doing this kind of work for our competitors. A level playing field is just as important in international trade as it is domestically.

The recent and substantial help our Congressional delegation

and the U.S. government has provided in connection with the present difficulties we are having with Japan relating to the glulam tariff is an outstanding example of what our government should be doing. Open the doors for us, break down the artificial trade barriers and let us do the rest.

7. **What would be the effects of a U.S. log export ban on Pacific Rim markets? Would new or expanded markets for finished products automatically develop? Would existing markets for finished goods be harmed?**

As one can see from the statistics provided in the introductory part of this statement, log exports eclipse finished forest product exports from the Pacific northwest in volume and dollar amounts. Although log exports generate substantial revenue, they generate much less revenue than a corresponding quantity of finished products. Compounding this is the fact that producers for the domestic market are unable to obtain essential timber supplies for their production facilities. This isn't meant to say that the present timber supply crisis in the Pacific northwest is all due to log exports. It is due more to the controversy now raging over the uses to which federal timberlands will be put. But because this country imports some 30% of its lumber require

ments, yet exports more than four billion feet of raw logs per year from the west coast, it is clear that at least some of our industry's raw material supply problem is traceable to raw log exports.

Logs are being exported at a record rate from the Pacific northwest, rolling right past mills that can't get trees to process. Furthermore, it has often been the smaller producer who fought to keep mills open and payrolls flowing. Actions need to be taken to protect smaller producers and supplies of forest products for the domestic market.

We think it is probable that Japan would increase its finished product purchases if log exports from public lands were banned. Our Japanese and Pacific Rim friends have shown a clear preference for the species and quality of wood available in quantity only from the Pacific northwest. A ban on exports of federal and state timber (we do not advocate controls on the export of private timber) will certainly add to existing demand for finished forest products in Pacific Rim countries, but there will be nothing automatic about new and increased sales opportunities. We'll have to continue working just as hard for everything we get, and pay just as much attention as before to quality and satisfaction of our customers' desires.

It seems very unlikely to us that any present export trade in finished forest products could be harmed by a unilateral, partial ban on export of raw logs from the Pacific northwest. Such an action would be in conformance with the General Agreement on Tariffs and Trade, which holds that a country may control the export of raw materials needed to supply the domestic demand for finished products derived from those raw materials. Although our State Department would have us be ever fearful of doing anything with the slightest potential to offend our foreign friends, we can't imagine anyone being so offended as to react by withholding purchase of needed materials.

With that, my presentation is concluded. I'll be pleased to address any questions or comments you may have. Thank you for listening.

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The following materials are hereby submitted to The Subcommittee on Regulation, Business Opportunities and Energy and the Senate Agriculture Subcommittee on Forestry and Conservation in response to their July 8, 1989 joint field hearing in Portland, Oregon:

1. "Wood Products Enter the Trade Battle As U.S. Says Japan Frustrates Imports". Wall Street Journal, Thursday, June 15, 1989.

2. Trus Joist Corporation: Japanese Customs Tariff Classification for MICRO=LAM® Laminated Veneer Lumber.

3. Letter dated April 13, 1989 from Akira Watanabe, Consulate-General of Japan, to Governor Neil Goldschmidt.

4. Letter dated March 10, 1989 from Governor Neil Goldschmidt to His Excellency Noboru Takeshita.

5. Letter dated December 16, 1988 from Nobuo Matsunaga, Ambassador of Japan, to Congressman Ron Wyden.

6. Product Brochure, Engineered Wood MICRO=LAM®.

Respectfully submitted,

Mark McDougal

LAW OFFICES OF MARK E. FOSTER

The Wall Street Journal, Thursday, June 15, 1989

Wood Products Enter the Trade Battle As U.S. Says Japan Frustrates Imports

By Damon Darlin
Staff Reporter of The Wall Street Journal

TOKYO—U.S. grievances with Japan over American wood-product exports have been such a low-key issue for five years that officials of both countries were surprised that U.S. Trade Representative Carla Hills included it last month in citing Japan as an unfair trading nation.

But U.S. trade officials thought otherwise. The U.S. makes several highly processed wood products that Japan can't yet make efficiently. As a result, the U.S. contends, Japan wants to buy the technology rather than the products. The U.S. says the Japanese have set high tariffs and difficult product standards to pressure American companies into transferring the technology that would enable Japan to make the products—and the profits.

"It's a classic issue," says Mark Foster, a Portland, Ore., attorney who represents a major U.S. maker of laminated wood-veneer products.

'Generic' Trade Dispute

The U.S. government also believes a solution to the wood-products issue would set precedents for other trade disputes. The U.S. alleges Japan keeps American products out by using unusual product standards and discriminatory building codes, that it subsidizes its inefficient producers, and sets high tariffs and allows business practices that prop up prices and discourage the use of wood.

Japan has refused to discuss these problems with the U.S., as promised, under the subdued forum of the Market Oriented Sector Specific, or MOSS, talks conducted sporadically since 1986. After so many years without progress, the get-tough provisions of Section 301 of the Omnibus Trade Act may come in handy, U.S. officials say.

The row also touches on Japanese policies that discourage the use of land for residential purposes. For example, 7% of Tokyo's land is used for farming. The U.S. believes that if Japan used more city land for houses, people would build more and bigger homes, and more homes of wood, and fill them with more imported goods. Japan's per capita consumption of wood is a quarter that of the U.S.

Japanese officials counter that Japan has lowered many tariffs and removed some oddities of its fire codes that discouraged the use of U.S. wood products. They point out that Japan imports 83% more forest products from the U.S. than it did in 1986, while imports of U.S. processed-wood products are up 116%. In 1987, imports from all countries totaled 69.4% of domestic consumption, up from 58.7% in 1972.

Where's the Beef?

"We aren't sure what the U.S. is complaining about," says Agriculture Ministry official Takashi Fujiwara.

To the U.S., the crux of the issue is that Japan mostly imports logs and has its sawmills do the value-added work. In 1988, Japan imported $2.1 billion of logs from the U.S., but only $216 million in processed-wood products. The U.S. says Japan's policies discourage use of some of the technologically advanced wood products the U.S. makes best. Logs carry no duties, for example, while tariffs as high as 20% are placed on most processed-wood products.

Japan had a tariff of 20% on laminated veneer lumber, or LVL, a plywood-type product. The government was about to lower the tariff to 10%, at the request of the U.S., but kept it at 20% to protect the "fledgling Japanese LVL industry," according to a U.S. Department of Commerce report on lumber in Japan. "It keeps the product flow to a trickle," says Mr. Foster, the Oregon attorney.

The high import duties are supposed to protect the Japanese industry from Southeast Asia's state-subsidized exporters, but the U.S. industry also is hurt.

Product standards, meanwhile, are often based on appearance, rather than strength, the U.S. complains. The tests for holding a nail, for example, are radically different from those used in the U.S. and discriminate against new products, such as oriented-strand board. In another case cited in the U.S., an American company wanted to sell wood with a fire-resistant coating that foams on contact with fire. The Japanese test required the wood to withstand exposure to flame for a certain time. But because the foam quickly put the flame out, the product failed the test.

Flawed Codes?

The Japanese pride themselves on the rarity of serious fires in Japan, which they attribute to their fire and building codes. But the codes appear flawed, critics say; though there are fewer blazes, deaths from fires occur at a rate almost 15 times higher than in the U.S.

Japan has been on a building boom for three years, but wood products haven't benefited as much as they could because building codes favor concrete and steel in multifamily housing, which comprises the bulk of new residential construction.

The issue is difficult to resolve because Japan's lumber industry is dying. It wants whatever piece of the action there is. Employment in the industry is half what it was in 1973, and the number of companies has shrunk about 25%. (The exception is laminated lumber, which the government is encouraging.)

As with many dying industries in Japan, it is protected. When the MOSS talks began, the Japanese government adopted a five-year $1.07 billion subsidy program.

The U.S. report says Japanese sawmill costs are twice those of U.S. sawmills. Therefore, "the industry feels that the U.S. is demanding too much, that the talks have been too one-sided," says a Foreign Ministry official.

TRUS JOIST CORPORATION: JAPANESE CUSTOMS TARIFF CLASSIFICATION FOR MICRO=LAM® LAMINATED VENEER LUMBER

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EXHIBIT J	-	LETTER EXCHANGE TO AND FROM AMBASSADOR MATSUNAGA 10/88-12/88.

Due to the number of copies of this document being distributed the Exhibits have been omitted. If you have a need for an Exhibit please contact the Law Offices of Mark E. Foster.

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MOSS DISCUSSION ISSUES: TJ INTERNATIONAL, INC.
LAMINATED VENEER LUMBER PRODUCTS

Following are the tariff and non-tariff issues TJ International, Inc. suggests be raised during the upcoming U.S.-Japan Sectoral Discussions on Forest Products (MOSS Talks).

I. Tariff Related Issues

A. Regarding the Japanese tariff on LVL, why was TJ International's MICRO=LAM® LVL arbitrarily reclassified on 9/2/87 into a tariff category imposing a 20% rate of duty instead of the earlier 12.5% (now 10%) duty category? How can we most expeditiously resolve the problem in order to achieve the stated goals of the government of Japan and the U.S. in the U.S.-Japan Joint Report on Sectoral Discussions dated January 10, 1986?

Talking Points: The reclassification of TJ International's MICRO=LAM® LVL may have been deliberate, or may have been made on the basis of inadequate or misunderstood technical information. In any event, it was made without thorough discussion of the uses to be made of the product, and without regard to the resulting inconsistent tariff treatment of two similar TJ International structural products: MICRO=LAM® LVL and TJI™ joists. Both are used as secondary structural support members. Common applications include use as floor joists, roof rafters, and door or window headers and beams. (A TJI™ joist consists of two MICRO=LAM® LVL flanges separated into a structurally efficient "I" shape by an intervening piece of structural plywood.)

Focusing on the technical description of the LVL itself, on the technical nature of the products involved, and on the uses in the building industry, the bilateral discussions should result in agreement to:

(1) place MICRO=LAM® LVL into the same classification of goods that TJI™ joists are in, that is, "builder's carpentry" at 3.9% duty; or

(2) reclassify it as "laminated lumber;" (a 15% duty category); or

(3) reclassify MICRO=LAM® LVL back into the "plywood" category; or (10% duty); or

(4) lower the rate of duty imposed on "Other" products in Japan Customs Tariff Schedule, by bringing that category under the reduced tariff Schedule agreed to by GOJ in the Joint Report.

The goal is to reduce, or eliminate, the duty on all Trus Joist LVL products. For reference, Canada considers MICRO=LAM® LVL to be builders joinery and carpentry of wood, HS 4418.90.10, at a duty rate of 8.2%.

II. Non-Tariff Technical Standards Issues

A. With respect to structural technical standards and product approval for laminated veneer lumber, how can we assure that Japan's Ministry of Construction (MOC) will fully accept all testing data generated pursuant to Japan Agricultural Standards (JAS) approval requirements, so that once JAS approval is obtained under new JAS structural LVL standards the MOC will automatically accept such JAS-approved structural LVL under relevant MOC standards?

Discussion: Products manufactured by TJ International's Trus Joist Corporation division are currently approved under several Japanese approval systems in limited applications, including an MOC limited approval for TJI® joists for 2x4 construction, and a similar MOC limited approval for MICRO=LAM® LVL use for scaffolding planks. In these instances, the MOC accepted Trus Joist-generated and verified engineering data without requiring further testing in Japan. Newly adopted JAS technical standards and product approval procedures allow Trus Joist to obtain JAS approval for structural utilization of LVL. The MOC also has its own technical standards and code approval system covering structural applications. **The goal is to assure that there be no duplication of efforts required to obtain the MOC approvals once JAS approvals are obtained. Cooperation and coordination between the relevant Ministries and agencies is required.**

Reference: Similar agreements among and between Japanese Ministries and agencies are currently in place. For example, the Ministry of Health and Welfare, covering medical devices, accepts data and approval documentation generated under the Japan Industrial Standards (JIS) system which is administered by the Ministry of International Trade and Industry. Similarly both JAS and JIS approvals are accepted by various agencies in Japan such as the Defense Agency, and School Lunch Division of the Ministry of Education, where those agencies are under jurisdiction of a Ministry different from the Ministry overseeing the JAS or JIS approval.

Mark E. Foster, Attorney
Portland, Oregon

TJ INTERNATIONAL, INC.: JAPANESE CUSTOMS TARIFF CLASSIFICATION FOR MICRO=LAM®-LAMINATED VENEER LUMBER

This document is intended to provide background material to U.S. Government officials involved in convening or conducting bilateral trade discussions with the Government of Japan according to the bilateral "Market-Oriented, Sector-Selective" (MOSS) talks. No other distribution of this document is intended or authorized.

EXECUTIVE SUMMARY

TJ International's Trus Joist Corporation division has been distributing in Japan products manufactured either entirely in the U.S.A., or partially in the U.S.A. and partially in Japan, since approximately 1983. Initially the Japanese customs office imposed a duty of 15% on MICRO=LAM® laminated veneer lumber, and a duty of 3.9% on TJI™ laminated veneer joists. The rate of duty for MICRO=LAM® LVL fell to 12.5% in April 1987 and would have been 10% from April 1988.

However, MICRO=LAM® LVL was reclassified in July 1987, resulting in a duty of 20%. This results in the product being non-competitive in Japan, at a critical time when domestic Japanese construction demand is strong and domestic Japanese competition is just beginning. The reclassification of MICRO=LAM® LVL may have been deliberate or may have resulted from technical misunderstanding or lack of clarity on the part of working level bureaucrats at Japan's Ministry of Finance, Customs and Tariff Bureau, Import Division, with input as well from working level officials at the Ministry of Agriculture, Forestry and Fisheries. In any event, the Government of Japan has refused to meet and confer on the issue, stating that "the MOSS talks on forest products were already concluded" (Exhibit J attached hereto).

Several alternatives exist for resolving the matter, focusing on the technical characteristics of laminated veneer lumber, structural uses for MICRO=LAM® LVL and TJI™ joists, and definitions under the respective tariff schedules of the U.S.A. and Japan, and the Harmonized System.

Question 1: What is Trus Joist Laminated Veneer Lumber?

The Trus Joist Corporation division manufactures a variety of products incorporating laminated veneer lumber produced by a proprietary manufacturing process in Trus Joist's manufacturing facilities located in Georgia, Oregon and

Louisiana. Trus Joist manufactures laminated veneer lumber (LVL) from ultrasonically-graded veneers aligned so that the grain in each sheet is parallel to the next, coated with waterproof adhesives (phenol formaldehyde or equivalent) and densified into continuous billets. The billets are then precision cut to custom or standard lengths or widths. The manufacturing process disperses inherent weak points in the wood, like knots and slope of grain, throughout the material.

Trus Joist's manufacturing process virtually eliminates twisting, shrinking, splitting and checking. Trus Joist laminated veneer lumber comes in a variety of products, illustrated in Exhibit A. These products include TJI™ Joist (used for floor joist applications) available in various depths; MICRO=LAM® laminated veneer lumber headers and beams, available in various depths, used as structural lumber for headers and beams and for scaffolding. At this time, these two Trus Joist products are the only products being distributed in Japan; TJ International through its joint venture company in Japan, Trus Joist Japan, Ltd., or through independent distributors in Japan, intends in the near future to introduce other MICRO=LAM® laminated veneer lumber products into Japan.

Various technical standards may be referenced for technical definitions of laminated veneer lumber. MICRO=LAM® laminated veneer lumber, in various applications, has been approved under a number of national and international building codes and authorities. Exhibit B attached hereto contains texts or references to technical standards in draft or final version. Recently, Japan has adopted a relevant Japanese Agricultural Standard for structural LVL, effective on or about May 31, 1988. A copy of the draft Japanese agricultural standard for structural LVL is also included in Exhibit B.

TJ International since 1983 has been exporting MICRO=LAM® LVL from America, and has been manufacturing in Japan TJI™ Joists. At present, due to the currency conditions and other considerations, TJ International is no longer manufacturing in Japan and is relying upon direct export from the U.S. to service the growing needs of its Japanese customer base. Target markets for MICRO=LAM® laminated veneer lumber products in Japan include residential housing (2x4, and traditional), agricultural buildings, public buildings, including halls and auditoriums, and some commercial structures. Both of these products are designed for structural applications primarily in the 2x4 residential market, and are adaptable to traditional Japanese building sizes and applications as well.

TJ International MICRO=LAM® laminated veneer lumber for headers, beams and scaffolding is comprised totally of laminated veneer lumber, cut in depths according to English or metric sizes, or cut to custom sizes using TJ International's precision

cutting technology. TJ International's TJI™/25 and TJI™/35 joists are structural components fabricated from flanges made from MICRO=LAM® laminated veneer lumber into which are pressure fitted a plywood web.

Question 2: How is Trus Joist Laminated Veneer Lumber Classified Under Japan's Custom's Tariff Schedule?

A. TJ International's MICRO=LAM® LVL.

Exhibit C (attached) documents the history of the Japanese customs tariff classification for TJ International's MICRO=LAM® laminated veneer lumber. Since 1983, continuing until July 16, 1987, MICRO=LAM® LVL was classified under Heading 44.15-191, "plywood, blockboard, laminboard, battenboard and similar laminated wood products (including veneered panels and sheets); inlaid wood and wood marquetry" (now HS 4412.19). Under the 44.15 heading, MICRO=LAM® laminated veneer lumber was classified in statistical code section 191 as "plywood; Other, with face plies on both sides of coniferous species."

The rate of duty imposed through March 31, 1987, was 15%; on April 1, 1987, the rate of duty fell to 12.5%. On April 1, 1988, the rate of duty for goods under this classification fell to 10%. Reductions in rate of duty were made pursuant to the "U.S.-Japan Joint Report on Sectoral Discussions" signed by Secretary of State George Shultz and Foreign Minister Shintaro Abe, signed on January 10, 1986, Annex, page 10. A copy of relevant sections of the Joint Report is attached as Exhibit D.

Despite the earlier classification under 44.15-191, on September 2, 1987, MICRO=LAM® laminated veneer lumber was reclassified to 44.15-300 "Other". The rate of duty for the "Other" classification has been, and remains, 20%. Attached as Exhibit E is a copy of the formal notification from the Import Division, Ministry of Finance, Customs Counselor, dated November 13, 1987, issued in response to a formal request by TJ International's importer. In the attached notification, TJ International division was advised that "LVL is neither plywood (44.15-191) nor laminated wood (44.15-200). LVL falls into a classification under other (44.15-300) [now HS 4412.99]".

B. TJ International's TJI™/25 and TJI™/35 Joists.

TJ International has also been importing into Japan TJI™/25 and TJI™/35 joists, which are I-Joist products manufactured from MICRO=LAM® laminated veneer lumber. From 1983 until approximately December 1987, finish manufacturing of TJI™/25 and TJI™/35 joists was done in Japan; from January 1988, however, Japan based manufacturing has ceased and all TJI™ joists sold in Japan are done so exclusively on an import basis.

TJI™/25 and TJI™/35 joists since 1983 have been classified by Japan as 44.23-090 (now HS 4418.90), "builders' carpentry and joinery (including prefabricated and sectional buildings and assembled parquet flooring panels; other). The rate of duty imposed has been and continues to be 3.9%.

Question 3: How Can MICRO=LAM® laminated veneer lumber be reclassified to a reduced rate of duty in order to achieve the stated goals of the Governments, to facilitate an increase in Japan's manufactured imports, and new market opportunities for American firms?

The reclassification of MICRO=LAM® laminated veneer lumber causing a rate of duty of 20% is illogical, causes the product to be noncompetitive, and contradicts the stated intentions of the Government of Japan.

Several options exist for correcting the situation.

A. Reclassify MICRO=LAM® LVL as "Plywood"

One option is to request that the Japanese Ministry of Finance, Import Division, Customs and Tariff Bureau, reclassify TJ International MICRO=LAM® laminated veneer lumber into the plywood classification at an effective rate of duty of 10%. Having initially been in this classification, this could be seen as a reaffirmation of their earlier decision and a reversal of a recent erroneous action to remove it from that classification. Placing MICRO=LAM® LVL back into the plywood classification is consistent in many respects with the customs tariff schedule of Japan, and would be preferable, in some respects, to other available alternatives; at the same time, it is not necessarily the best alternative from a technical standpoint.

Preliminary negotiations and discussions with Japanese government officials indicate that they removed MICRO=LAM® LVL from the 44.15-191 classification for several reasons. First, MICRO=LAM® LVL does not contain cross plies, as does plywood. Technically, in the manufacturing process, TJ International calls for alignment of plies on each layer of veneer to be in the same direction. A second reason given by the Japanese officials is that plywood traditionally functions as a surface sheet, whereas MICRO=LAM® LVL performs a structural support function.

By their own definition, the customs and tariff schedule of Japan includes within category 44.15 (now 4412.19) "veneered panels and sheets". Therefore, from that standpoint, the original classification as "plywood .....including veneered panels" is not incorrect according to their classification schedule.

Reclassifying it back into that heading avoids discussion over the issue of distinction, if any, between MICRO=LAM® laminated veneer lumber product and TJI™ joist laminated veneer lumber product. Furthermore, reclassifying it back to 44.15-191 is consistent with Rules for the Interpretation of the Customs Tariff Schedule of Japan, Rule 3(a): "The heading which provides the most specific description shall be preferred to headings providing a more general description." Given that the classification includes specific reference to veneered panels, and given that TJ International's laminated veneer lumber is composed of veneer panels laminated together, classification 44.15-191 (HS 4412.19) is logical and consistent.

Additionally, reclassification back to 44.15-191/HS 4412.19 achieves the stated intent of the Government of Japan by continuing to place the product under a tariff classification in which the rate of duty is being progressively reduced.

B. Classify MICRO=LAM® Laminated Veneer Lumber As Laminated Lumber

If the Government of Japan continues to maintain that MICRO=LAM® laminated veneer lumber is not plywood, another option is to reclassify it into the laminated lumber classification 44.15-200 (now HS 4412.21) at an effective rate of duty of 15%. Doing so is preferable in some respects to perpetuating its misclassification in the "Other" category, and is consistent in many respects with the customs tariff schedule of Japan, and the U.S.-Japan Joint Report on Sectoral Discussions.

Presumably the main reason for removing the product from the 44.15-191 classification is the fact that the grain in each layer of MICRO=LAM® laminated veneer lumber is arranged parallel to the next as is the grain in laminated lumber, unlike plywood in which the grain of each layer is at a right angle to the next. Additionally, placing MICRO=LAM® laminated veneer lumber into the "laminated lumber" classification solves the problem, voiced by Japanese officials, that MICRO=LAM® laminated veneer lumber performs a structural support function while plywood traditionally does not; laminated lumber also serves as a structural support member.

Finally, laminated lumber is specifically a subject of tariff reductions pursuant to the U.S.-Japan Joint Report, Annex, page 10. Accordingly, the rate of duty was reduced on April 1, 1987 from 20% to 15%.

C. Classify MICRO=LAM® LVL the Same As TJI™ Joists Under "Builder's Carpentry"

Placing MICRO=LAM® LVL into the same tariff classification as TJI™ joists is a preferred option in that it would

alleviate confusion based on inconsistent and contradictory classifications for products made from the same laminated veneer lumber. It would also be consistent with the Rules for Interpretation of Customs Tariff Schedule of Japan by placing MICRO=LAM® into a classification specifically covering structural builders' carpentry for structural purposes. Furthermore, this classification would seem to be most consistent given the adoption of the H.S. System, and in particular the "Explanatory Notes" covering builders' carpentry. Finally, this classification would impose a relatively low rate of duty of 3.9% and thereby achieve the stated purpose of the Government of Japan in facilitating increased market access to manufactured imports.

Since 1983 TJ International LVL TJI™ Joists have been imported into Japan classified as 44.23-090 "builders carpentry - other" (now HS 4418.90). This classification is reasonable and logical given the function of TJI™ Joists, in light of the technical aspects of the product, and the classification system imposed by Japan's customs tariff schedules.

The same logic holds true for MICRO=LAM® laminated veneer lumber. MICRO=LAM® LVL is a structural product, highly manufactured, which takes the place of conventional builders' lumber. Typical applications are for headers or beams; it is also sold for lumber scaffold planking.

Now that Japan has adopted the HS System, definitions under the HS System apply to heading classifications of products. Accordingly, as shown in Appendix F, Japanese heading 44.23 (which has now become heading HS 4418) specifically states that "the term carpentry refers to woodwork (such as beams, rafters and roof struts) used for structural purposes or in scaffoldings, arch supports, etc. Builder's carpentry also includes glue, laminated timber (glulam), which is a structural timber product obtained by gluing together a number of wood laminations having their grain essentially parallel...." According to this definition, both TJI™ Joists which are currently classified as such, and MICRO=LAM® laminated veneer lumber product, should fall within this category.

By placing both MICRO=LAM® LVL and TJI™ Joists into the same classification which currently covers TJI™ Joists, the essential characteristic of the product, from a classification standpoint, would be recognized. That is, both products are derived from laminated veneer lumber produced by the same manufacturing method in TJ International's plants. Both products serve structural support functions. Both products are highly manufactured and are finished, with no further or contradictory use of the product other than that for which it is designed and manufactured. Therefore the reclassification of MICRO=LAM® LVL would be consistent with the Rules for the Interpretation of the Customs Tariff Schedule of Japan, Rule 3(b). That rule states

that products which cannot be otherwise classified "shall be classified as if they consisted of the material or component which gives the goods their essential character, insofar as this criteria is applicable". Certainly it is the laminated veneer lumber which is manufactured and finished in a specific fashion, which gives MICRO=LAM® LVL its essential character, as it does for TJI™ Joists.

Finally, classifying MICRO=LAM® LVL similarly to TJI™ Joist, places both products under a relatively low rate of duty of 3.9%. This is consistent with the stated goals of the Government of Japan and the U.S.-Japan Joint Report.

D. Reduce the Rate of Duty on "Other" to Below 20%

A final alternative is to request the Government of Japan to reduce the effective rate of duty on the "Other" classification to below 20%. This could be requested on the basis of bringing that classification of goods under the wood product tariff reduction schedule agreed to in the U.S.-Japan Joint Report. Whatever the reason, that particular classification of goods was not included in the reduced tariff schedule; no logical reason exists for its exclusion. Moreover, on a comparative basis, the rate of 20% is simply too high. However, on balance, it would seem more difficult to affect the legal changes required to implement tariff duty reductions, than it would to affect the bureaucratic reclassification of MICRO=LAM® LVL into an appropriate class of goods.

COMPARATIVE CUSTOMS TARIFF SCHEDULES
FOR TRUS JOIST MICRO=LAM® LVL & TJI™ JOISTS

Product	Customs Tariff Schedule of Japan (Old)(%)	(HS)(%)	Tariff Schedule of U.S.A. (Old)(%)	(HS)(%)
MICRO=LAM® LVL	Thru 9/87: (10%) 44.15-191	4412.19	N/A	
	From 9/87: (20%) 44.15-300	4412.99		
TJI™ Joists	44.23-090 (3.9%)	4418.90	N/A	
Brand "X" (into USA)	N/A		240.40 (4%)	4412.29 (3-8%) 4412.21

CONSULATE-GENERAL OF JAPAN
2400 First Interstate Tower
1300 S.W. Fifth Avenue
PORTLAND, OREGON 97201

April 13, 1989

The Honorable Neil Goldschmidt
Office of the Governor
State Capitol
Salem, Oregon 97310

Dear Governor Goldschmidt:

I am pleased to be able to respond, upon the instruction of my home government, to the matter of concern you raised with Prime Minister Takeshita in your letter of March 10, 1989. In the spirit of the close and mutually beneficial relationship Japan and the State of Oregon are so privileged to share, I trust that the perspective of my home government may be useful to your dispassionate understanding regarding the domestic situation of our own forest products industry in general, and the LVL industry in particular.

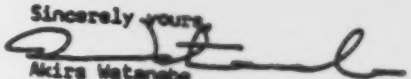
Reliant upon a proportionate supply of forest products from the State of Oregon, Japan has come to depend upon this stable supply of forest products being maintained in the future.

Nevertheless, our country's forestry resources, largely based upon forests of cedar and Japanese cypress planted after WW2, are not yet fully matured. As for the growth cycle of these planted forests, the growing demand for the utilization of the wood thinned from these forests has become a matter of important debate. For this reason, measures are being taken, including the development of various kinds of lamination technology, to utilize the single sheets of wood that are produced from such forest thinning. Currently, there are seven domestic JAS-accredited mills in Japan producing 60 thousand cubic meters of LVL annually. Although our country's LVL industry is of comparatively small-scale, as mentioned above we anticipate particular growth in this industry.

Considering this stage of our domestic situation, Japan is obligated to promote not only the appropriate management and growth of its forest resources, but also to facilitate the protection of a specified list of articles and related industries. Therefore it is difficult for Japan to lower the existing tariff of 20 percent.

As Consul-General of Japan and a friend of Oregon, I appreciate your concern and trust that you will accept this response from my home government.

Sincerely yours,



Akira Watanabe
Consul-General of Japan

AW:hf

NEIL GOLDSCHMIDT
GOVERNOR

OFFICE OF THE GOVERNOR
STATE CAPITOL
SALEM 97310

March 10, 1989

His Excellency Noboru Takeshita
Office of the Prime Minister
6-1, Nagata-cho 1-cheme
Chiyoda-ku, Tokyo 100
JAPAN

Your Excellency:

I bring to your attention a matter of great importance to the ongoing relationship of friendship in commerce between our State and Japan. The matter concerns the continuation of excessively high duties imposed on Laminated Veneer Lumber ("LVL") being manufactured in our State and exported to Japan. The duties being imposed, twenty percent, constitute a continuation of tariff barriers which were presumed to have been eliminated by announced tariff reductions several years ago.

Despite repeated attempts, representatives of our forest products industries have been unsuccessful in obtaining your Government's agreement to resume bilateral talks which could bring about a solution to this problem.

The production of LVL is very important to our State's economy. As your nation expands its domestic consumption, the importation and use of LVL in Japan is making positive contribution to both our economies. Accordingly, I ask that you take appropriate steps to instruct the Minister of Agriculture, and the Customs and Tariff Bureau of the Ministry of Finance, to effectively lower the tariff duty being imposed on LVL.

We consider that our State and Japan share a close and mutually beneficial relationship. Our State Department of Agriculture laboratories are the only JAS-approved laboratories for canned foods in the entire world.

Oregon is being selected increasingly by companies of Japan for manufacturing operations. Unreasonable high tariff rates on strategic products of Oregon hinder our mutual efforts to enhance this relationship.

Thank you for assistance in solving this problem. I look forward to your response.

Sincerely,

Neil Goldschmidt
Governor

NG:dph

Enclosures

cc: Mr. Tsutomu Hata
Minister of Agriculture

EMBASSY OF JAPAN
WASHINGTON, D. C.

December 16, 1988

Dear Congressman Wyden:

Thank you for your letter dated October 21, 1988. Upon instruction, I would like to convey the views of my home government on the points you raised in your letter with respect to the MOSS (market-oriented, sector selective) talks on forest products.

Since the MOSS agreement on forest products was reached in January of 1986, the Government of Japan has faithfully implemented the agreed measures pursuant to the MOSS agreement in spite of the severe economic difficulties which the domestic industry is facing. As a result, the importation of the forest products subject to the MOSS talks is increasing considerably. In fact, the increase in imports of forest products, in 1987, is up 207% as compared with the previous year.

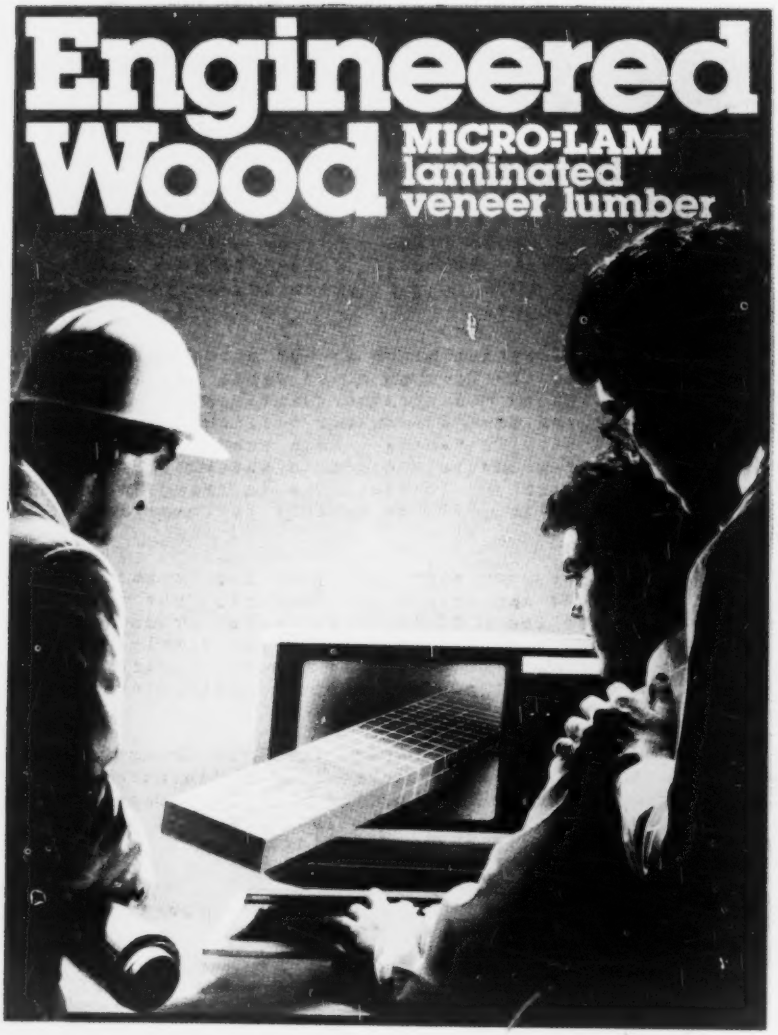
In your letter, you expressed your desire to continue the MOSS talks. We appreciate your remarks, but with the understanding that the MOSS talks on forest products were already concluded, the Government of Japan firmly believes that the most appropriate avenue to discuss tariff and non-tariff issues on forest products is the multilateral forum, i.e. the Uruguay Round Negotiations.

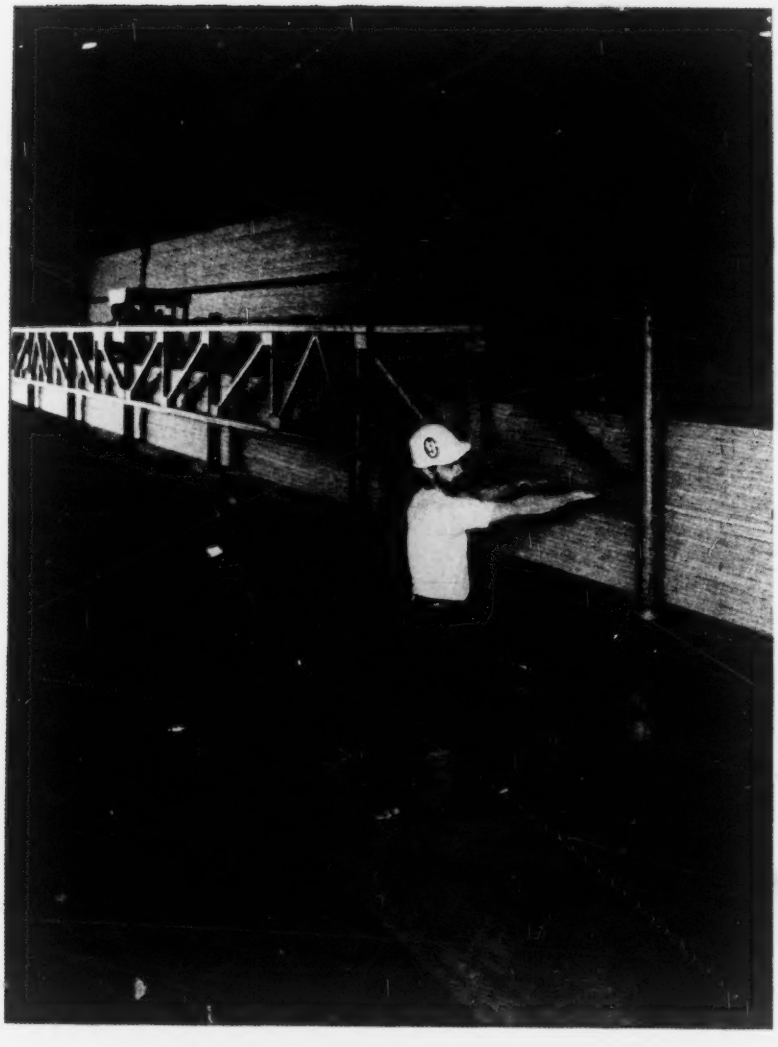
I would like to add, however, that the Government of Japan is, and will be, ready to review the technical matters regarding the implementation of the MOSS agreement on forest products at working level talks. In the spirit of cooperation, we would like to continue to work closely with you on this matter.

Sincerely yours,

Nobuo Matsunaga
Ambassador of Japan

The Honorable
Ron Wyden
U.S. House of Representatives
1406 Longworth House Office Bldg.
Washington, D. C. 20515


Engineered
Wood
MICRO=LAM
laminated
veneer lumber



MICRO=LAM® LUMBER

The most important development in wood construction since the advent of plywood.

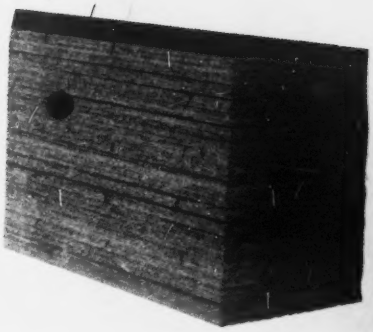
MICRO=LAM lumber, a high strength laminated veneer lumber with predictable consistency, was developed by Trus Joist Corporation and introduced to the construction industry in 1971. At that time Trus Joist, established in 1960, was already known as an innovator in structural wood products and as the nation's leading manufacturer of lightweight roof and floor structural systems.

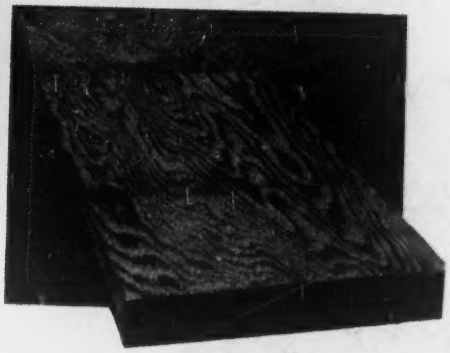
MICRO=LAM lumber is made from many layers of thin, dried veneers which are both visually and ultrasonically graded to meet stringent Trus Joist standards. They are then laid up in a precisely controlled pattern, coated with waterproof adhesives and cured by heat and pressure in a moving hot press of Trus Joist Corporation's own design.

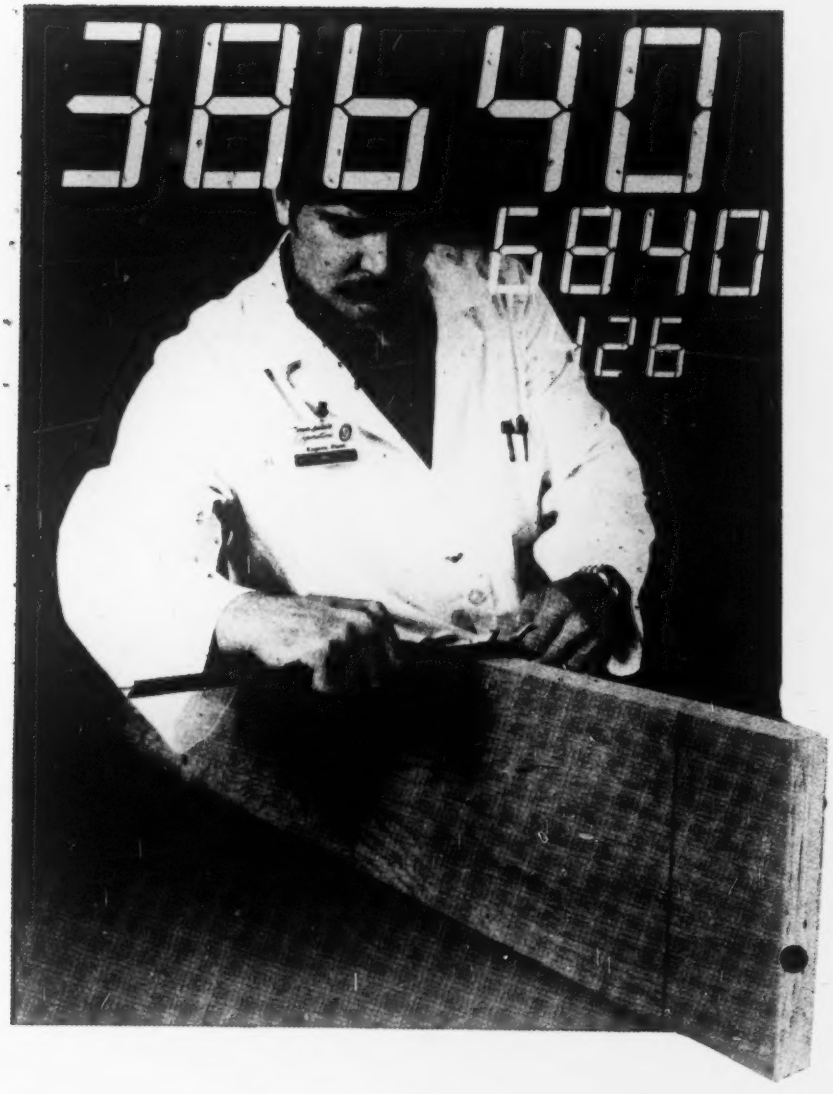
The resulting product is a solid board or billet 80 ft. long, two feet wide and from ¾ to 2½ inches thick, a billet which can be cut to any length or width to fit customer needs.

But unlike solid sawn lumber, MICRO=LAM lumber is uniform with highly predictable performance. Wood's natural defects, such as slope of grain, knots and splits are controlled, or dispersed and reinforced by the grading and manufacturing processes. The result is structural lumber in a wide range of sizes with uniformity, predictable performance and allowable bending stresses from 2300 psi to 2800 psi with special orders available to 3100 psi.*

*These values are per NDS-126. See back page.






38640
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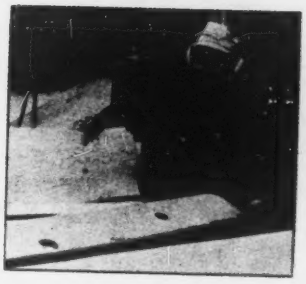
126

Creative Engineering in structural wood

MICRO=LAM lumber is an engineered product produced from the finest available materials under the strictest standards of quality control. Unlike lumber sawn from trees which are subject to the vagaries of nature, MICRO=LAM lumber has a high degree of consistency, superior strength and stiffness characteristics.

The veneers, of which MICRO=LAM lumber is composed, are first dried and then visually and ultrasonically graded to meet Trus Joist standards. They are then laid up in a predetermined pattern with all grain parallel, a process that is the basic source of MICRO=LAM lumber's unique predictability.



Throughout the manufacturing process the adhesive spread, moisture content, pressure, time and temperature are constantly monitored to assure consistent quality and to make certain that MICRO=LAM lumber meets or exceeds the most exacting standards of quality and performance.

Following manufacture, a stringent testing program is conducted on a regular basis by both company inspectors and an independent inspection firm which makes unannounced visits to the manufacturing plants. Samples of billets are subjected to rigid testing to make certain that MICRO=LAM lumber meets Trus Joist standards and will perform to specifications.

MICRO=LAM lumber is accepted for structural use by all major building codes including NRB, ICBO, BOCA and SBCC. It has also gained approval by FHA, OSHA (federal and Calif.) and CMHC in Canada.

MICRO = LAM LVL Strength Range Comparison

WHAT MICRO=LAM LUMBER MEANS TO THE CONSTRUCTION INDUSTRY

MICRO=LAM lumber supplies the construction industry with structural lumber containing all the advantages of wood but far superior to solid sawn wood in every way.

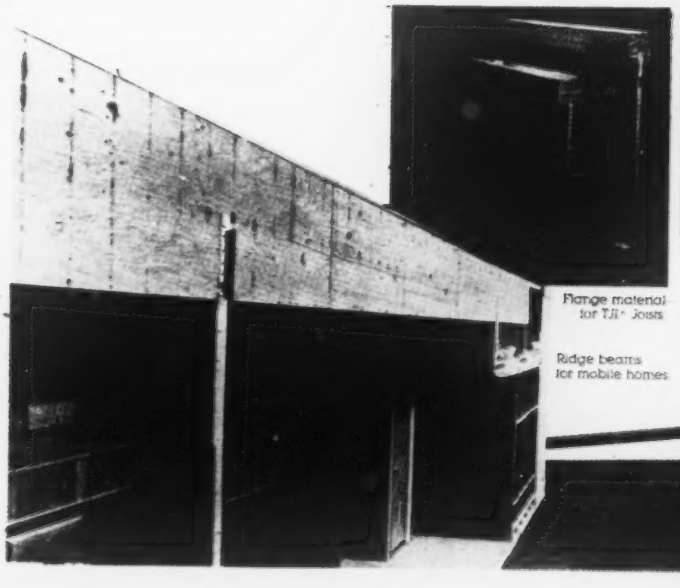
MICRO=LAM lumber is stiffer and can carry greater loads at longer spans. This means smaller sections and bigger savings.

Defects such as twisting, splitting and shrinking which are found in solid sawn wood are greatly reduced in MICRO=LAM lumber. Waste and rejects are virtually eliminated.

Because MICRO=LAM lumber is uniform, the published values and design stresses are absolutely reliable allowing engineers, architects, builders and manufacturers new freedoms in structural design and cost effectiveness.

Solid sawn lumber is available only in standard sizes (2x4, 2x6 etc.) but MICRO=LAM lumber may be ordered in any size, which eliminates waste. It can also be custom manufactured to meet the demands of specific end uses. Several different surface veneers are available as is a rough sawn face for appearance.

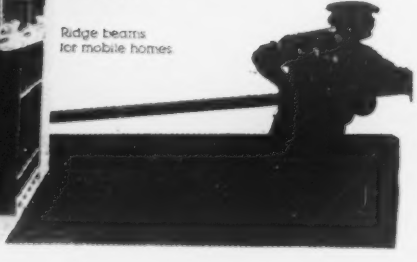
MICRO=LAM lumber manufacturing plants are located adjacent to large supplies of raw material and capacity is such that orders are normally processed and shipped within three weeks.



Flange material for TJI® Joists

Utility structures

Ridge beams for mobile homes



MICRO=LAM lumber does it better

MICRO=LAM lumber is so versatile, so revolutionary, that we still haven't determined all of its uses. However, here are some of the ways it is being used today to do a better job than solid sawn wood or other materials.

SCAFFOLD PLANKS
More reliable, safer and longer lasting than any solid sawn planking on the market. And that means bigger savings.

CONCRETE FORMING AND SHORING COMPONENTS
Straight, strong and durable.

UTILITY STRUCTURES
Reliable performance and significant cost savings.

AGRICULTURAL BUILDINGS
Superior headers for large door openings and for structural roof and wall members.

RECREATIONAL VEHICLES
Lightweight structural components for greater strength and savings.

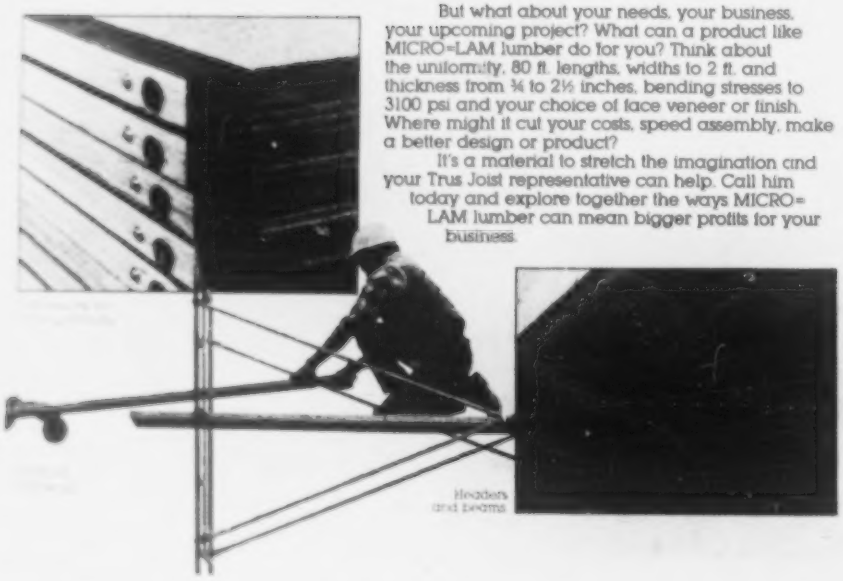
TRUCKBED DECKING
Tough, durable and lightweight.

OFFICE PARTITION FRAMEWORK
Precut, precision components for fast, economical construction.

RIM JOISTS AND RIDGE BEAMS
In mobile homes and manufactured housing. Better quality and greater strength because of one piece construction (no debilitating joists).

HEADERS AND BEAMS
In commercial and industrial projects for faster, better construction and greater savings.

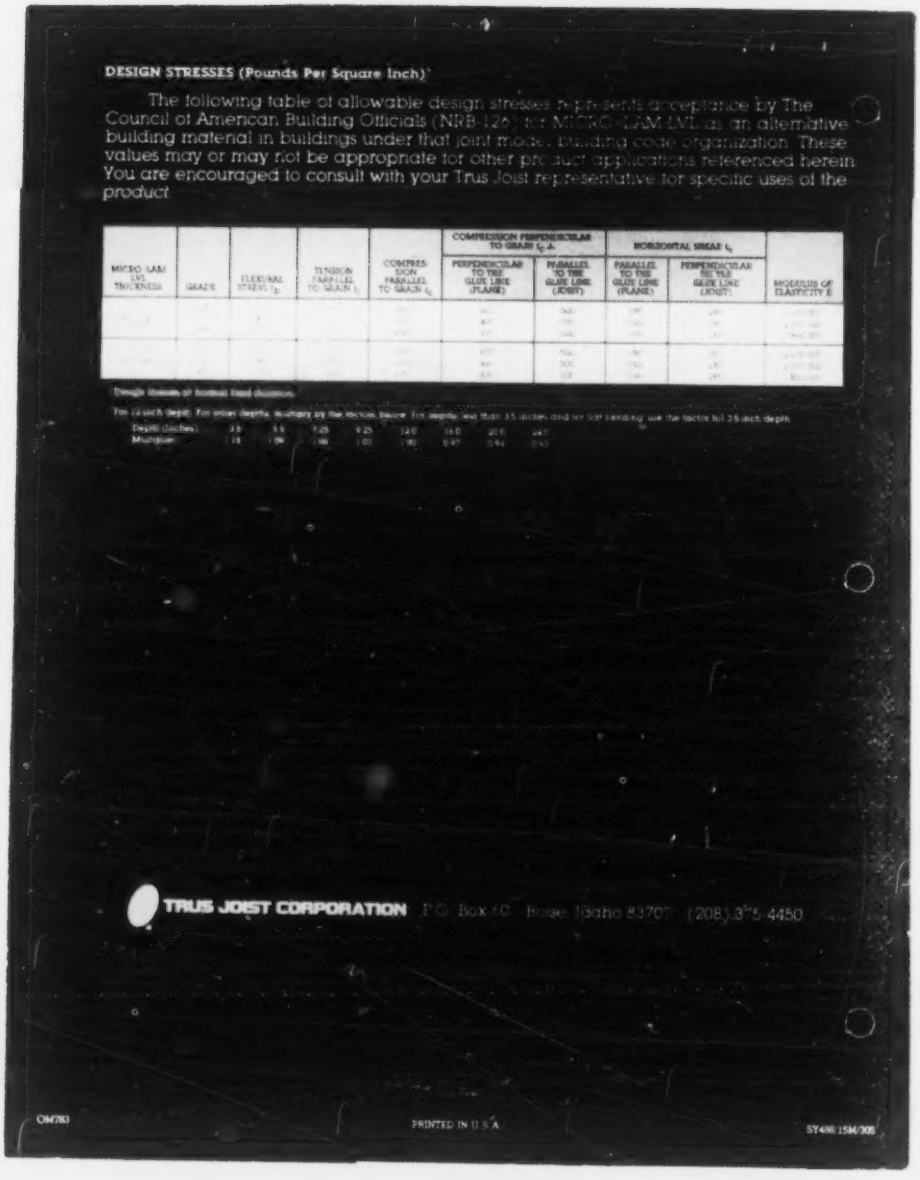
FLANGE MATERIAL
For Trus Joist high performance floor and roof joists.



Headers and beams

But what about your needs, your business, your upcoming project? What can a product like MICRO=LAM lumber do for you? Think about the uniformity, 80 ft. lengths, widths to 2 ft. and thickness from ¾ to 2½ inches, bending stresses to 3100 psi and your choice of face veneer or finish. Where might it cut your costs, speed assembly, make a better design or product?

It's a material to stretch the imagination and your Trus Joist representative can help. Call him today and explore together the ways MICRO=LAM lumber can mean bigger profits for your business.



DESIGN STRESSES (Pounds Per Square Inch)

The following table of allowable design stresses represents acceptance by The Council of American Building Officials (NRB-126) for MICRO=LAM LVL as an alternative building material in buildings under that joint model building code organization. These values may or may not be appropriate for other product applications referenced herein. You are encouraged to consult with your Trus Joist representative for specific uses of the product.

MICRO=LAM LVL THICKNESS	GRADE	FLEXURAL STRESS F_b	TENSION PARALLEL TO GRAIN F_t	COMPRESSION PARALLEL TO GRAIN F_c	COMPRESSION PERPENDICULAR TO GRAIN $F_{c\perp}$		HORIZONTAL SHEAR F_v		MODULUS OF ELASTICITY E
					PERPENDICULAR TO THE GLUE LINE (FLANGE)	PARALLEL TO THE GLUE LINE (JOIST)	PARALLEL TO THE GLUE LINE (FLANGE)	PERPENDICULAR TO THE GLUE LINE (JOIST)	

Design stresses at normal load duration.

For 12 inch depth. For other depths, multiply by the factors below. For depths less than 3.5 inches and for bot bending, use the factor for 3.5 inch depth.

Depth (inches)	3.5	5.5	7.25	9.25	11.0	14.0	16.0	18.0	20.0	24.0
Multiplier	1.19	1.09	1.04	1.00	0.96	0.91	0.87	0.84	0.81	0.76

TRUS JOIST CORPORATION P.O. Box 60 Boise, Idaho 83707 (208) 375-4450

OM783 PRINTED IN U.S.A. SY498 15M/305

Joint Subcommittee Field Hearing Testimony
House Subcommittee on Regulation, Business Opportunities & Energy
Senate Agriculture Subcommittee on Forestry and Conservation
July 8, 1989, Portland, Oregon

by

Kent P. Connaughton
Chair, Oregon Society of American Foresters

OREGON'S FORESTS

Oregon's forests are among the most impressive and productive in the world. They contribute to the scientific, spiritual, aesthetic, and recreational fabric of the nation; they include a diversity of ecological conditions, supporting a rich array of terrestrial and aquatic flora and fauna; and they support a wood products industry that is the largest component of Oregon's economic base and a major contributor to the nation's housing and wood products needs.

Forty-six percent of Oregon is forest land; seventy-nine percent of Oregon's forest land is further classified as timberland, or land available for timber production and capable of growing at least twenty cubic feet of industrially useful wood per acre per year. Oregon's timberland supports a softwood sawtimber inventory that is comparable in volume to that of the 13 southern states bounded by Virginia and Florida along the Atlantic coast, and Texas and Oklahoma in the west.

WHO OWNS OREGON'S FORESTS?

A remarkable feature of Oregon's forests is the size and mix of public and private ownerships. The federal ownership is the largest with about 56 percent of the State's timberland. Oregon's federally-administered forests are more extensive than those of any other State, and include almost 12.5 million acres of timberland. Almost 70 percent of the state's softwood growing stock is currently under federal administration. And over the last ten years about one-half of Oregon's timber harvest has come from federal land. The preponderance of remaining old-growth in Oregon occurs on the federal ownership.

Industrially-owned forests are the next largest ownership category. Industrial forests account for 23 percent of the timberland and 14 percent of the softwood sawtimber volume in Oregon. Industrial forests have provided approximately 40 percent of the State's harvest over the last 10 years. Industrially-owned forests have completed the transition from old-growth, naturally occurring stands to young-growth, managed stands.

Farmer and other private owners make up the third largest ownership

category, accounting for 15 percent of timberland and 8 percent of the softwood sawtimber inventory in Oregon. About 4 percent of the State's timber harvest has come from this diverse ownership over the last ten years. The condition of the farmer and other private forests is varied, with a substantial proportion of land lacking manageable stands, but also a substantial proportion supporting stands that are nearing the age of optimal timber harvest. Farmer and other private owners have also completed the transition from old-growth forests.

The final ownership category includes state, county, municipal, and tribal bodies. This other public ownership accounts for about 6 percent of the State's timberland and about 7 percent of the standing softwood sawtimber volume. About 5 percent of the State's timber harvest has come from this ownership over the last 10 years.

DIFFERENT OBJECTIVES DRIVE PUBLIC AND PRIVATE FORESTRY

Public land management agencies, to varying degrees, have legal and administrative charters to manage their lands for multiple uses--that is, both commodity and noncommodity uses, goods and services. The National Forests, for example, are operated under a mandate to manage for all commodity and noncommodity uses, and not to seek necessarily the greatest monetary return. The Bureau of Land Management has a comparable multiple-use mandate, but must also administer the revested Oregon and California (O&C) Railroad lands to provide a high-level, sustainable supply of timber. Public ownership represents an opportunity to produce a mix of forest uses, goods and services that has high social value and that balances commodity and noncommodity interests.

For the industrial and corporate owner, forestry is a profitable business. Substantial investments in intensive management and forest protection have been undertaken on corporate and industrial ownerships. The farmer and miscellaneous private owners are more varied in their management practices than industrial and corporate owners. This variation reflects a number of factors, including multiple purposes for holding forest land, knowledge of forestry, and the ability to finance forestry investments.

TIMBER SUPPLY, THE WOOD PRODUCTS INDUSTRY, AND THE OLD-GROWTH HARVEST

The timber that will be harvested over the next 20 to 30 years in Oregon is standing in the woods today. A recent study by the USDA Forest Service, Pacific Northwest Region (1989), shows that there is sufficient timber in economically attractive age classes to sustain the harvest in Oregon at rates comparable to the last 10 years <u>if the proposed Preferred Alternatives identified in draft National Forest plans are adopted</u>.

The supply situation varies significantly, however, by subarea: northwest, west-central, the south coast (Coos and Curry counties), and eastern Oregon can expect a favorable timber supply situation over the

next 20 years, while Douglas, Jackson and Josephine counties are faced with immediate harvest declines that will persist until well after the turn of the century.

The importance of the federal contribution to timber supply has varied by subarea: the federal contribution has been greatest east of the Cascades (70 percent of the recent 10-year harvest), less so in southwest and west-central Oregon (55 percent and 47 percent of the recent harvest, respectively), and least in northwest Oregon (38 percent of the recent harvest). The federal share of the harvest is expected to increase dramatically during the next few decades in southwest Oregon as the industrial harvest reaches a low point.

Old-growth logs are the dominant raw material for Oregon's wood products industries. A survey conducted by the PNW Research Station (Howard and Ward, 1988) of Oregon's wood products industry in 1985 reports that 65 percent of the logs harvested in Oregon came from old-growth trees, where old-growth was defined as a tree 100 years of age or older. Though not consistent with results that would be obtained if using an ecological definition of old-growth, the mill survey results are indicative of Oregon's utilization of stands and trees that are largely of natural origin and over 100 years old.

The plywood industry utilizes a larger proportion of old-growth logs than the lumber industry, but both use old-growth (defined as trees 100 years of age or older) in large volumes. The 1985 survey shows that 60 percent of log volume processed by lumber mills and 77 percent of the log volume processed by plywood mills came from trees classified as old-growth. These percentages vary by subarea: they are greatest in southwestern Oregon (where 79 percent of the logs going through lumber mills and 85 percent of the logs going through plywood mills were classified as old-growth), and least in northwest Oregon (where 36 percent of the logs going to lumber and 48 percent of the logs going to plywood were from trees classified as old-growth).

CONFUSION OVER THE DEFINITION OF OLD-GROWTH

A definition is critical in determining how much old-growth remains, where it is located, and how it should be managed. The definition of old-growth used in the mill survey, cited above, highlights the confusion that currently exists over how much old-growth remains. In the mid-1980's, the Forest Service used a classification that grouped mature and old-growth stands together based on stand age, while more recently the Wilderness Society employed a definition with additional stand attributes for its survey. The different definitions resulted in two different estimates of old-growth acreage.

The issues of management of the northern spotted owl and old-growth ecosystems are related. However, care should be exercised in interpreting these issues because they are not identical in all respects. Specifically, suitable spotted owl habitat exists in stands that meet only part of the definition of old-growth, while old-growth

stands exist that are not suitable for the spotted owl.

The Society of American Foresters recommends (Society of American Foresters, 1984):

1. That an ecological definition be adopted by the Forest Service and other public agencies principally responsible for managing Oregon's forests. Research has produced useful definitions of different old-growth Douglas-fir and mixed-conifer forests in the Pacific Northwest and California (Old Growth Definition Task Group, 1986). These definitions, based on ecological characteristics, recognize stand composition (the plant and animal species present), function (ecological processes of energy and nutrient cycling, and life and death of resident plant and animal species), and structure (the presence, size and distribution of live trees, standing dead trees, and down trees).

2. That ecological definitions of old-growth ecosystems be refined to facilitate their use in forest inventory. Managers need an adequate inventory before they can understand options and make decisions about the allocation of old-growth stands to alternative land uses. The Society recommends that old-growth ecosystems be identified on both public and private forestlands, including those lands excluded from timber harvest.

LAND ALLOCATION AND FEDERAL LAND MANAGEMENT PLANNING

While timber production is an important forest use, some land should be maintained in an old-growth state for wildlife habitat, aesthetic enjoyment, scientific study, and primitive recreation. Allocation of the Nation's limited forest land base often creates intense public and professional debate about the amount of land designated for commodity or noncommodity uses. The Society believes that the objectives of forest owners should be the basis for resource management decisions. In the case of federal land, this is the general public. Once these objectives have been established, the forest should be professionally managed, using the best available scientific information and principles.

The Society believes that the key to effective federal land management is rigorous planning, taking full advantage of scientific principles and including extensive public involvement. Federal land management planning is mandated by Congress under the 1974 Forest and Rangeland Renewable Resources Planning Act, the 1976 National Forest Management Act, and the 1976 Federal Land Policy and Management Act.

The Society supports:

The completion and implementation of land management plans for the National Forests and Bureau of Land Management Districts as the best way to select the land allocations and management programs

that will best meet the needs of the American people while balancing the competing interests of particular forest users.

The Society is concerned that appeals and litigation, based on disputes over specific procedural issues and brought by subsets of the public, are negatively affecting the ability of public agencies to manage and protect public forests, and to deliver the full benefit of the uses, goods, and services that might otherwise be gained from these forests. The potential economic effect of this for Oregon is alarming because the amount of federal timber available for sale is significantly reduced over planned and anticipated levels.

ABOUT THE SOCIETY OF AMERICAN FORESTERS

The Society of American Foresters, with about 20,000 members nationally (including 1,670 in the Oregon Society), is the national organization representing all segments of the forestry profession of the United States, including public and private practitioners, researchers, administrators, educators, and forestry students.

The objectives of the Society are to advance the science, technology, education, and practice of professional forestry, and to use the knowledge and skills of the profession to benefit society.

The Society was founded in 1900. The members subscribe to a code of professional ethics. The Society is the accreditation authority for professional forestry education in the United States and publishes the major scientific forestry journals in the United States.

REFERENCES:

Howard, James O. and Franklin R. Ward. 1988. Oregon's forest products industry: 1985. Resour. Bull. PNW-RB-149. USDA Forest Service, Pacific Northwest Research Station, Portland, Oregon 97208. 90 p.

Old-growth Definition Task Group. 1986. Interim definitions for old-growth Douglas-fir and mixed-conifer forests in the Pacific Northwest and California. Resear. Note PNW-447. USDA Forest Service, Pacific Northwest Research Station, Portland, Oregon 97208. 7 p.

Society of American Foresters. 1984. Old-growth forests in the Pacific Northwest: a position of the Society of American Foresters and report of the SAF Task Force on scheduling the harvest of old-growth timber. Bethesda: Society of American Foresters, 5400 Grosvenor Lane. 44 p.

USDA Forest Service, Pacific Northwest Region. 1989. Timber supply in the Pacific Northwest: aggregate implications of forest plans. 39 p.

MASON, BRUCE & GIRARD, INC.
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1000 ANDERSON BANK BUILDING
521 S.W. MORRISON STREET
PORTLAND, OREGON 97205

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CARL A. NEWPORT
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DAVID R. COX
KENNETH M. VROMAN
JOHN H. BEUTER
JAMES D. ARNEY

June 30, 1989

- TESTIMONY OF JOHN H. BEUTER

Joint Field Hearing of the House Small Business Subcommittee on Regulation, Business Opportunities & Energy, and the Senate Agriculture Subcommittee on Forestry and Conservation, Portland, Oregon, July 8, 1989.

BACKGROUND

I am John H. Beuter, consulting forester and principal with Mason, Bruce & Girard, Inc., a consulting forestry firm located in Portland, Oregon. Since 1921, our firm has had an established reputation for objectivity and fairness in working with clients across the entire spectrum of forest resource management and conservation. In the early days of western forestry, our firm played an important role in the acquisition of Federal forest land under the Weeks act of 1911, the Clarke-McNary Act of 1924, and the Woodruff-McNary Act of 1928. One of our founders, David T. Mason, is considered the father of sustained yield forestry in the Pacific Northwest, having played a key role in helping to draft the O&C Act of 1937, the organic act for sustained yield on two million acres of O&C land in western Oregon now managed by the Bureau of Land Management, Department of the Interior.

I joined Mason, Bruce & Girard, Inc. in 1966 after 18 years as professor of forest management at Oregon State University (OSU). I wish to cite two reports I worked on while at the university that are important background for my testimony. The first was a comprehensive study of Oregon's timber resources published in 1976 that is available from the Forest Research Lab at OSU under the title Timber For Oregon's Tomorrow, Research Bulletin 19. I am currently assisting the university in an update of that work.

In 1984, while on sabbatical leave from the university, I worked with the Congressional Research Service (CRS) in Washington DC at the request of the House Appropriations Subcommittee on the Department of the Interior and Related Agencies to write a report on federal timber sales. That report is available from the Environmental and Natural Resources Policy Division of CRS under the title: Federal Timber Sales, Report 85-95 ENR.

PURPOSE OF THIS TESTIMONY

I was asked by the staff of the House subcommittee to give my perspective and views on a number of questions related to public forest planning and old-growth. I am honored to be asked, and wish to emphasize that I am here as an objective observer, and not as an advocate for any particular position in these matters. I will do the best I can to address the questions submitted to me by the subcommittee staff.

QUESTIONS

1. Definition and characteristics of old-growth forests? Characteristics of timber stands? Can they be replicated in second-growth?

There is no easy answer to any of this. From the perspective of a tree farmer, any timber beyond economic maturity, perhaps as young as 75 years, might be considered old-growth. From the perspective of an ecologist, the definition of old-growth encompasses a forest structure that includes large, standing old trees, both live and dead, accumulated biomass on the forest floor consisting of large dead woody material, branches, twigs, leaf fall, and understory vegetation. The desirable structure includes a diversity of vegetative species with respect to form, dimension and spacing.

Any timber that is merchantable at a profit contributes toward achieving the tree farmer's primary objective, whether old-growth or not. Sound old-growth may be desired because of unique properties that contribute to higher valued products, or because it is cheaper to produce a given volume of output with a few big logs than it is with many small logs.

The objectives of the ecologist are not so straight-forward. They include habitat for varied species of plants and animals, forest diversity, preservation of long-term ecosystem productivity, and others, including the capability to produce timber in the long-run.

There is little question that the objectives of the tree farmer and ecologist intersect in the long-term, i.e., both are concerned with preserving long-term forest productivity. In short term, we face the evaluation of three kinds of cost/risk situations:

a. The cost of foregoing the benefits of harvesting and using existing old-growth timber, combined with the risk that it would make little difference in ecosystem productivity and diversity in the long-run.

b. The cost of foregoing the benefits of ecosystem preservation by harvesting existing old-growth, combined with the risk that harvesting will not provide significant socio-economic benefit beyond immediate cash-flow.

c. The cost of mitigation, either for the disruption of socio-economic stability if harvesting is foregone, or for the need to replicate old-growth if existing stands are depleted, combined with the risk that mitigation can't or won't be undertaken.

All the alternatives are technically feasible and it is fairly easy to identify the benefits associated with each. The problem is to evaluate the costs and risks--which leads to the next few questions.

2. How much old-growth is left in the Pacific Northwest?

Depending on definition and whose inventory is accepted, the area of old-growth timber may be between three and six million acres, however, knowing the exact amount does little to resolve the old-growth issue.

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The entire range of three to six million acres may be viewed as too little by those concerned with preserving it, and such less would likely be considered as adequate or better by those wishing to harvest it. The assessment of what exists needs to be made in the context of what we hope to accomplish, whether it be ecosystem preservation, or harvest and utilization, or a rational combination. No adequate inventory exists. What is needed is site-specific information to classify stands as to their marginal values for the alternatives of preservation or harvest. Stands that are clearly more valuable preserved ought to be preserved. Stands that are clearly more valuable for harvest and utilization ought to be so allocated. Stands having values that are not significantly different among the alternatives need to be more closely evaluated in terms of attendant costs and risks. The point of this is to narrow the focus of the debate to that which is debatable.

3. How much old-growth should be set aside?

Obviously, we should seek an answer that would maximize net public (societal) benefits without making any individuals worse off. Traditional economic theory separates mankind from nature, and the short-run from the long-run, focusing only on the present utility to the decisionmakers, i.e., the direct, immediate net benefits. Externalities such as endangerment of "lesser" species, diminution of long-term site productivity, and impacts on people, now and in the future, who are outside the decisionmaking loop, are often ignored by standard economic analysis.

The old-growth question has been brought into a forum that requires consideration of the externalities, i.e., the decisionmaking arena has been expanded to include the welfare of threatened species and environs, and people in present and future generations who were not previously considered in such decisions. There is no easy answer, but the process of comprehensive forest planning accompanied by public debate, and leadership to catalyze compromise seems to be the most civilized way of finding an answer, inefficient as it may be. We are probably doing the best we can with the knowledge at hand.

4. What is the dependence of the wood products industry on old-growth?

Few, if any, wood products plants depend exclusively on old-growth, and any that might were probably fully amortized long ago. The issue is not dependence on old-growth per se, but rather the availability of merchantable timber that can be profitably utilized. In aggregate, investments in the forest industries have been made on the promise of sustained yield, which essentially has been interpreted as "non-declining even flow" on the Federal lands. Federal forest plans made roughly 10 years ago projected harvest capability in perpetuity that was predicated on the land base available for timber management at that time. Timberland withdrawals in the new plans reduce the long-term sustained yield capability, and appear to negate the promises of the past. It is not surprising investors and those dependent on forest industry activity are upset.

Most of the timberland in the Pacific Northwest, private as well as public, is being managed on sustained yield. The problem, particularly in western Oregon, is that past decisions on private lands were made with expectations timber harvest from public lands that are now not likely to occur. There is no longer slack on private lands to cover the anticipated losses of harvest from public lands.

Years ago, a drop in allowable cut on public lands might have been compensated for by increasing the harvest on private land. There are few opportunities for that to occur now because most of the timber on forest industry lands is 10 to 20 years from merchantability. Any decrease in public harvest is apt to translate into a net decrease in total timber supply compared to what has been available in the recent past.

To summarize, the industry is not dependent on old-growth, per se, but rather on the availablity of some amount of old-growth to maintain needed supplies until more private timber becomes merchantable. The only alternative for maintaining industry activity at recent levels would be to import logs from outside the region. There already is an increasing trend of importing California logs into Oregon, and eastern Oregon logs into western Oregon, but the net result of that is to just move the problem around. It is not likely that we will see increasing imports of logs from Canada or off-shore sources.

5. Can and should mills be reconfigured to use smaller trees (logs)?

Yes. This transition has been occuring at an increasing rate over the past 15 years and will continue. Along with this reconfiguration has come greater efficiency, which means more complete utilization of the resource, and less labor per unit of production. These are trends that must continue if the wood products industry of the Pacific Northwest is to remain competitive with other regions of the U.S., Canada, and other wood producing regions of the world.

6. Do we have enough scientific information to make proper, long-term decisions regarding the future management of old-growth forests?

Nobody knows for sure, but we probably do. I believe we know enough to carry on without such risk of a calamity that will threaten the survival of mankind or the infinite, everchanging diversity of nature. To quote Winston Churchill: "I am an optimist. It doesn't seem much use being anything else."

Regardless of our knowledge, there will always remain something we don't know. Every decision includes risk. We have embarked on a rational process for public forest planning that will reduce the probability of a calamity, but will never completely eliminate risk and probably will never truly "optimize." Fortunately, the process is designed for a free flow of information, scientific or otherwise, that may signal the need for mid-course corrections in plans.

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However desirable it might be to have more information, all we can do at present is work with the knowledge we have, assess the benefits, costs and risks, and make decisions accordingly.

7. Are all old-growth stands "biologically significant?"

In a philosophical sense, it could be argued they are because of their uniqueness in time and space, but practically the answer is no. We are constantly reminded of the vast acreage of old-growth timber that has already been cut over, not only in the Pacific Northwest, but also in the Northeast, the South and the Upper Great Lakes region. Yet, it is not evident that we or nature is any the worse off. The "significance" of our "losses" is usually cited in the context of a preserved stand that reminds us of what the whole region might have been like 100 years earlier. We should remember that early forest clearing was directed as much at making regions more habitable as it was at making a profit from exploitation. There is no evidence that we are worse off because more old-growth wasn't preserved in earlier times.

On the other hand, based on our knowledge it is clear that some existing old-growth stands are biologically significant. When it comes to gene pools, habitat value, or just inspiration, some old growth stands are more valuable than others. I again emphasize the need for site-specific evaluation to determine values, costs and risks.

8. Are you satisfied with Federal agency land use plans? How can they be improved?

I can only respond with reference to the national forests. It is my opinion that the planning process is working, inefficently, to be sure, but progress is being made. It is significant that the intensive review of forest plans by Governor Goldschmidt's staff in Oregon is resulting in relatively minor adjustments from the preferred alternatives proposed by the Forest Service. That isn't to say the planning process and the plans can't be improved, but it does suggest they aren't far off the mark based on our knowledge at this time.

It should be understood that the plans that are now under intensive review are strategic plans, not tactical plans. They have, in general, been built from the top down, from a broad perspective of the forest, rather than from the bottom up, with a site-specific perspective. Much work remains to verify whether the plans can be executed on the ground. That is, we can expect continuing debate about specific forest activities, such as individual roads and timber sales.

It would seem that forest planning might be improved by a bottom-up approach built upon site-specific capabilities, but that is not easy to do. It requires much more time-consuming and expensive field analysis early in the planning process, and trust that the process won't be biased by predeterminations of land capability by people in the field. It is a challenge for the future to better integrate tactical realities into the strategic plans.

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Another area for improvement is to get timber-dependent states and regions involved early in the Federal planning process. It should be recognized that the national interest is largely accounted for by Federal laws and regulations that guide the planning process. Much of the debate has to do with local, site-specific issues. Much time could have been saved in Oregon had the Governor's staff been involved in formulating the plans and gathering public input before the alternatives were formulated and analyzed. In the context of constraints to meet national requirements, the plans should be formulated such as to consider what is happening on other forest ownerships, and with greater sensitivity to local and regional socio-economic impacts. The process may also benefit from greater Federal-state cooperation to accomplish more intensive forest inventories, both on and off the national forests.

9. Would the Federal timberlands be more productive with more intensive management?

No question about it. The Federal lands lag far behind industrial lands in the application of intensive management practices. And, it isn't entirely because of a lack of funds. The management of Federal timberlands is much more complex than that for other ownerships because of multiple-use objectives, and a multitude of requirements prescribed in well-meaning, but often paralyzing, laws, policies, regulations and guidelines. Some timber management money is wasted in activities and areas where timber management cannot be economically justified. The earmarking of funds by activity or location may keep it from being used where it can get the highest return. Money is often wasted by using blanket, risk-avoiding silvicultural prescriptions that may result in doing things that don't have to be done. Conversely, there are instances where not enough effort is put into gathering site-specific information before a decision is made, leading to undesirable results that may be expensive to mitigate..

My CRS report referred to earlier in this testimony contains an overview of Federal timber management, along with some views on how things might be improved by a more businesslike approach. It is no longer credible to excuse inefficiency and ineptitude because of "multiple-use objectives." The Federal forest planning process is defining the timberland base that can and should be economically and efficiently managed to maximize the net returns from timber management. It is time to run the timber enterprise of the Federal lands in a businesslike manner. Much can be learned from the practices of some of the more responsible forest industry timberland owners.

SUMMARY

In closing, I'd like to refer you to a book Community Stability in Forest-Based Economies recently published (1989) by Timber Press of Portland, Oregon. One of the contributing authors to this book is Congressman Ron Wyden, and I especially encourage you to read his article "Look At The Big Picture." Congressman Wyden provides an excellent perspective of why forest planning and management ought to be of interest to everyone, including urban residents who may feel far removed from the issues being discussed.

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TESTIMONY OF LAURENCE A. TUTTLE, OREGON REGIONAL DIRECTOR, AND PETER M. EMERSON, VICE PRESIDENT FOR RESOURCE PLANNING AND ECONOMICS, THE WILDERNESS SOCIETY, BEFORE THE JOINT HEARING OF THE U.S. SENATE AGRICULTURE SUBCOMMITTEE ON CONSERVATION AND FORESTRY AND THE U.S. HOUSE OF REPRESENTATIVES SMALL BUSINESS SUBCOMMITTEE ON REGULATION AND BUSINESS OPPORTUNITIES, ON OLD-GROWTH FOREST MANAGEMENT, JULY 8, 1989, IN PORTLAND, OREGON.

Mr. Chairman, we are pleased to appear before you on behalf of The Society's 300,000 members to testify regarding the management of ancient forest resources in the Pacific Northwest.

Nowhere else in the federal land system is the need for major policy change more urgent than in the Pacific Northwest. The old-growth forests of western Washington, Oregon , and northern California are the finest coniferous forests in the world. But decades of intensive logging have decimated this once seemingly inexhaustible resource.

Only in the last few years have scientists begun to discover the unique ecological characteristics and valuable "ecosystem services" of old-growth forests. We now know that more than 200 species of fish and wildlife are found in old growth and that some species, such as the northern spotted owl, require old-growth habitat to survive. Just recently, scientists discovered that the Pacific yew tree--found in the understory of old-growth forests--contains substances that may be useful in treating cancer. And, old-growth forests are a steady source of clean, naturally filtered water for domestic, agricultural, and industrial uses, as well as for anadromous fisheries.

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As scientific and public interest in old-growth forests grew in the mid-1980s, it became increasingly evident that the absence of accurate old growth inventories was a major barrier to making informed management and policy decisions. Therefore, The Society has undertaken its own inventory of old-growth forests for the 12 national forests in western Washington, Oregon, and northern California. This effort, now completed for six of the forests, is the only inventory that distinguishes between mature and true old-growth forests and uses the ecological definition of old growth developed by a team of Forest Service and BLM scientists in 1986. Our work, which relies on Forest Service timber inventory data updated through aerial photography and other means, has been favorably reviewed by top Forest Service scientists, university statisticians, and others.

Based on our inventories and information from state and federal agencies, we estimate that only about 10 percent of the original old growth remains in western Washington and Oregon--roughly 2.4 million acres. Virtually all of the old growth on private, state, and tribal lands is gone, leaving federal lands as the last bastion of these ancient forests. Nearly two-thirds of the old growth in western Oregon and Washington --about 1.5 million acres--is in national forests. While a few sizable remnants of old growth are located in national parks and wilderness areas scattered throughout the region, most old growth is found on national forest and Bureau of Land Management lands that are available for logging.

Our old growth inventory has important policy implications because it conclusively demonstrates that there is far less old growth remaining than we had been led to believe. While the Forest Service has estimated that 2.5 million acres of old growth exist in the six national forests that we inventoried, our study found that only about 1.1 million acres--less than one-half the Forest Service estimate--actually fit the ecological criteria in the old growth definition. In recent months the Forest Service has begun to revise its old growth estimates on some national forests, and the revisions support our conclusion. The agency has lowered its estimate of old growth on the Mount Hood National Forest by almost one-half--from 346,000 to 178,000 acres--based on new inventory data.

Unfortunately, the forest plans being prepared by the Forest Service pursuant to the National Forest Management Act fail to recognize the scarcity of old growth and call for its rapid liquidation. The plans perpetuate the agency's policy of clearcutting the oldest and largest trees as quickly as possible and replacing them with young, intensively managed tree farms. Overall cutting levels in the 12 westside national forests would increase by 10 percent over the average cut in the last decade.

The planned logging will profoundly and irreversibly degrade many of the Pacific Northwest's most distinctive natural resources, including fish and wildlife habitat and scenic beauty. The U.S. Fish and Wildlife Service's proposal to list the northern spotted owl as a threatened species and the court injunction against Forest Service timber sales in spotted owl habitat are symptoms of the Forest Service's failure to manage old-growth forest resources on a sustainable basis.

Redirecting the Forest Service timber program to preserve the remaining ancient forests will hasten the fundamental transition that the region's timber economy is already experiencing. The timber industry is in a state of transition to a second-growth economy characterized by a declining domestic market share and fewer jobs. It is necessary to understand this transition in order to make sound policy decisions concerning old-growth forests.

The timber industry in the Pacific Northwest has become the high-cost producer of lumber and other wood products, including plywood, relative to its competitors in the southern states. According to Forest Service data, the solid wood products industry in states such as Alabama, Mississippi, and North and South Carolina enjoy a cost advantage of more than $100 per thousand board feet in comparison to the Pacific Northwest. Virtually all of that cost advantage is due to the substantially lower costs of logging in the South where flat terrain and good access make highly mechanized logging feasible.

The cost disadvantage first became apparent in the mid-1960s, and has been growing steadily ever since. Consequently, new plant and capacity expansion began migrating to the South. The exodus of new plant capacity from Washington and Oregon has seen the southern states increase their share of solid wood products plant capacity from 23 percent in 1964 to 39 percent in 1985. At the same time, the Pacific Northwest's share of total plant capacity fell from a peak of 36 percent in 1964 to 30 percent by 1985.

As a contributor to the region's economic base, timber has played an important, but declining, role in the Northwest. Gross product, the value of all final goods and services produced, provides an indicator of the relative importance of an industry to the region's economic base. In Washington and Oregon, the share of gross product contributed by the timber industry has been falling steadily since 1978. Today, logging and the solid wood products industry contribute just 3.5 percent to the total regional product. Twelve years ago, in 1978, the industry was responsible for more than 7 percent.

Employment trends follow a similar pattern, except the decline has been steady since 1969 when the logging and wood products industry provided more than 6 percent of all jobs in Washington and Oregon. By 1987, the timber industry accounted for just under 3 percent of the region's total workforce.

Yet, even though the logging and solid wood products industry of Washington and Oregon slipped in importance as a factor in the region's economy, economic growth in those states continued through diversification. Today, the two states are enjoying economic growth at rates that exceed the national average while the timber industry's contribution to employment and gross product is declining. Washington and Oregon are now less sensitive to the boom and bust cycles that characterize the timber industry.

The future for the timber industry is likely to include continuation of these trends in employment. The fundamental forces that caused the timber industry to slip in the

1960s and the 1970s are still at work as we approach the 1990s. The most important factors seem to be high manufacturing costs, excess production capacity nationally, and tightening timber supplies--particularly on the private lands.

Currently, the industry's capacity to produce lumber and plywood nationally exceeds demand. This has resulted in lower inflation adjusted prices for finished products, despite record demand experienced through 1987. For example, Douglas-fir standard and better two-by-four lumber brought $260 per thousand board feet in 1979 but just $240 in 1989, even without downward adjusting for inflation. Softwood plywood prices have shown similarly disappointing price performance. At the same time, lumber and plywood production reached new highs in 1988.

This story echoes throughout the country. Manufacturing capacity increased at a faster rate than demand, and prices fell in both real and nominal terms. Moderate growth in demand and increased capacity have combined to make the wood products business extremely competitive. These factors are liable to characterize the timber industry for the next several years.

Export-grade logs are the only product that has enjoyed growth in both demand and price. In just the one year from 1987 to 1988, the quantity of logs exported from Oregon and Washington ports soared to more than 4 billion board feet, an increase of over 1 billion board feet. Log exports also reached a new record in 1988, more than 20 percent higher than the last previous peak of 3.2 billion board feet set in 1979.

As production of finished products and log exports reached record levels during the last two years, the overall timber supply remained remarkably constant. Timber sold from state and federal lands in Oregon and Washington has averaged 7.4 billion board feet since 1978. Last year, state and federal timber sold in the two states totalled 7.1 billion board feet, 95 percent of the average and within the normal range of variation observed from year to year.

The amount of timber cut, which historically has been more volatile than the volume of timber sold, averaged 6.7 billion board feet from federal and state lands during the last 11 years. More recently, however, the cut on public lands has substantially exceeded the volume sold, reaching a peak of 8.3 billion board feet in 1987. The cut in 1988 was approximately 8 billion board feet. At the same time, timber harvested on private lands shows some signs of declining after averaging 7.1 billion board feet over the last several years.

Contrary to assertions by the timber industry, the volume of timber sold by state and federal agencies did not change significantly until this year. Growth in demand from both the domestic market and in log exports has clearly pushed demand for timber in the region beyond sustainable levels. Industrial forestland owners have been unable to increase the timber cut on their lands, and the publicly owned forests are already selling timber at, or higher than their sustainable annual sales levels. This has forced timber prices higher than they have been since 1979. The result has been a cost-price

squeeze for domestic producers who have enjoyed no real price increase in their finished products.

Over the longer term, timber supplies throughout the Pacific Northwest are expected to fall. This decline is projected to total about 16 percent compared to historic cut levels over the next 30 to 40 years and comes as no surprise. Oregon State University first reported the likelihood of such a shortfall in 1975, and considerable attention has been devoted to this eventuality. Virtually all of the decline in timber supplies will occur on private lands. The impact will be to reduce the volume of lumber and wood products manufactured in Oregon.

Timber, then, is destined to play an increasingly smaller role in the Pacific Northwest economy. Modernization will replace workers as the industry seeks to remain competitive. The Oregon Economic Development Department estimates, and our own research confirms, that several thousand timber jobs will be lost to modernization. Job losses due to declining timber supplies will also occur, but to a lesser extent.

Policy Options

The real issue for the Northwest is not the timber-based economy but the future of the total forest resource. While timber's share of the state's economic base will continue to decline in importance, the non-timber elements of the economy are increasing in importance. The reality is that forests--particularly the national forests and BLM lands--are under great pressure to produce not only more timber but also more recreation opportunities for residents and visitors, more clean water for Oregon cities, more wildlife habitat, more fish--in short, more of everything for both commercial and non-commercial purposes.

Forest Service data reveal that demand for recreation and other uses of public forests is rising faster than these lands can keep up with at the same time that demand for timber is rising and private supplies are limited. The public lands are at a disadvantage compared to the private sector when it comes to growing wood fiber, but they have a competitive advantage in providing for other forest uses that are not always traded in the marketplace. In short, public lands should be dedicated to providing non-timber values that the private lands cannot.

To maintain both employment in the timber industry and the many irreplaceable values of old-growth forests, we must take advantage of our competitive strengths. The Society's recommendations follow:

- Stop cutting ecologically significant old-growth forests in the Pacific Northwest. The Forest Service needs to provide scientifically defensible inventories and maps for Congress to determine which areas warrant permanent protection. At the same time, the Fish and Wildlife Service must ensure long-term survival of the northern spotted owl and other old growth-dependent species through its review of proposed timber sales and the listing and recovery processes. Access to the courts must be

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LOG EXPORTS IN THE PACIFIC NORTHWEST

Questions and Answers

The export of raw logs from Washington and Oregon has reached an all-time record high. During the past several years, the volume of logs exported averaged about 3 billion board feet (bbf) annually from 1978 to 1987. In 1988, log exports skyrocketed to over 4 bbf. At this level, approximately one in every four logs cut in the Northwest is shipped overseas without passing through a domestic mill. The state of Washington accounts for 75 percent of all log exports and the state of Oregon accounts for 25 percent.

1) Q: Why are logs exported?

A: The timber industry exports raw logs because Pacific Rim countries will pay substantially higher prices for logs than domestic purchasers. It is estimated that companies receive 25 to 50 percent more for logs in the export market than in the domestic market (Congressional Research Service citing Forest Service, March 6, 1989).

2) Q: Where do export logs come from?

A: The primary suppliers of export logs are private and state-owned timberlands in Washington, and to a lesser extent, Oregon. Congress has precluded the export of raw logs cut on federal lands through annual provisions in interior appropriations bills. However, approximately 147 million board feet of federal timber is exported annually under so-called "substitution" rules drafted by the Forest Service and Bureau of Land Management (Congressional Record, April 11, 1989).

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3) Q: How much timber is being exported?

A: The log export market is booming. Exports averaged about 3.2 billion board feet (bbf) annually from 1978 to 1987. However, in 1988, log exports skyrocketed to more than 4.0 bbf. At this level one in every four logs cut in the Pacific Northwest is shipped overseas without passing through a domestic mill. This is a much more serious phenomenon in Washington, where as much as one billion board feet of timber is cut on state lands. It is a much smaller problem in Oregon because the volume of timber cut on state lands there is relatively small, averaging about 200 mmbf. It is also estimated that as much as 35 percent of all timber cut on private lands in oregon is being exported unprocessed. (Letter from Congressman Peter DeFazio to President George Bush).

4) Q: What effect do log exports have on timber supply?

A: The export of raw logs is a critical factor limiting the amount of timber available for domestic mills in the Northwest. The export of 4.2 billion board feet of timber from Oregon and Washington in 1988 represents 30 percent of the total average annual harvest in those two states.

5) Q: What effect do log exports have on stumpage prices for timber?

A: The prices bid in the export market and the annual shipment of over 4.0 bbf of timber overseas are creating inflationary pressures throughout the region. As a result, stumpage prices have increased to the point where small mill owners simply are unable to bid competitively for timber. Further exacerbating the rise in stumpage prices are the spotted owl lawsuits, which have placed substantial timber volumes off limits, thus increasing inflationary pressure on timber prices.

6) Q: How does this affect the national forests?

A: The decreased availability of private and State timber for domestic processing is forcing many firms to rely more heavily on federal timber than they otherwise would. Log exports are clearly placing increased pressure on the Forest Service to accelerate cutting on the national forests. Furthermore, a strong domestic market and a booming log export market have pushed demand for timber will in excess of levels that are sustainable. Private industrial timberland owners have not been able to increase timber cut levels, and publicly-owned forests are already selling timber at levels that are at or above their sustainable cut.

7) Q: Would limitations on log exports increase the amount of timber available to domestic mills?

A: Yes. Contrary to the assertions of the timber industry, limiting the export of raw logs would increase timber availability in the Pacific Northwest. Assuming that 20 percent of export logs are cut on state-owned lands, at current export levels, prohibiting the export of state-owned logs would make available to domestic mills approximately 800 million board feet of timber annually. Most of the relief from such a ban would occur in Washington State.

8) Q: Legislation has been introduced in the U.S. Congress that would extend states the right to restrict log exports from state lands. Who supports this legislation?

A: A coalition of diverse groups such as The Wilderness Society, Sierra Club, National Audubon Society, National Wildlife Federation, the AFL-CIO, Boise Cascade Corporation, Southern Pacific Transportation Company, and the Western Forest Industries Association support legislation introduced by Senator Bob Packwood (R-OR) to limit log exports. The legislation has also been supported in editorials in several newspapers, including the Portland Oregonian, Eugene Register-Guard, the Seattle Post-Intelligencer, and the Salem Statesman-Journal. Also, by a 9 to 1 margin, Oregon voters recently approved a referendum banning log exports from state lands.

THE WILDERNESS SOCIETY

July 6, 1989

Honorable Ron Wyden
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Wyden:

Following are answers to the specific questions that you asked The Wilderness Society to address in our testimony at the July 8 field hearing in Portland on old-growth forests.

Question #1. Please provide us with your definition of old-growth forests. What are the characteristics of timber stands? Can these forests be replicated in second-growth?

Answer #1. With respect to old-growth Douglas-fir and mixed-conifer forests in the Pacific Northwest and California, we agree with the interim definitions developed by Dr. Jerry Franklin and other scientists on the Forest Service's Old-Growth Definition Task Group (Research Note PNW-447). Old growth is a special stage in forest development possessing ecological characteristics not sufficiently represented in mature forests. Only after 200 to 250 years do most stands begin to exhibit the characteristics of old-growth Douglas-fir forests: deep, multilayered canopies; the presence of old, large Douglas-fir trees; and abundant shade-tolerant associate tree species. Dominant trees in old-growth Douglas-fir forests vary from 200 to more than 1,000 years in age. The oldest climax forests may lack the Douglas-fir component and be completely dominated by large, late seral trees. While a wide range of tree sizes and ages is usually present, old-growth Douglas-fir trees typically have an individualistic form; deep, irregular crowns; broken tops; cavities; large branches holding accumulated organic matter and epiphytic plants; and deeply furrowed bark. Old-growth forests have gaps in the canopies allowing sunlight to nurture

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patches of understory shrubs, herbs, and tree seedlings. Numerous large standing snags and downed logs on the forest floor are also very important characteristics of old-growth forests. Snags are nesting habitat for old growth-dependent birds; downed logs provide habitat for many species and also serve as a source of soil building and a hospitable environment for future trees.

We agree with the Society of American Foresters' position concerning reproduction of old growth:

> With present knowledge, it is not possible to create old-growth stands or markedly hasten the process by which nature creates them. Certain attributes, such as species composition and structural elements, could perhaps be developed or enhanced through silviculture, but we are not aware of any successful attempts. Old growth is a complex ecosystem, and lack of information makes the risk of failure high. In view of the time required, errors could be very costly. At least until substantial research can be completed, the best way to manage for old growth is to conserve an adequate supply of present stands and leave them alone.

Question #2. How much old growth--virgin forest--is left in the Pacific Northwest?

Answer #2. We estimate there are no more than 2.4 million acres of old growth in western Oregon and Washington. This is about 10 percent of the region's original old-growth forest.

Question #3. How much should be set aside for the spotted owl, or for other environmental/conservation purposes?

Answer #3. About 800,000 acres are currently protected in national parks, wilderness areas, research natural areas, and state parks. At this time, we believe that virtually all of the remaining old growth should be protected, at least until adequate inventory data and maps are available to make site-specific determinations. In addition to old growth, some mature stands may need to be protected to ensure adequate distribution of habitat for the spotted owl.

Question #4. Describe the saw mill industry in Oregon. How much of it depends exclusively on old growth (large-diameter) trees for raw material?

Answer #4. Second-growth timber has become the dominant raw material in the Pacific Northwest and will provide an increasing share of log markets in the future. However, many sawmills produce premium grade products that can only be manufactured from large-diameter trees exceeding 100 years of age. Old-growth forests are the source of much of this volume. There are three classes of sawmills:

- o Cutting mills--mills that produce select and better grades of lumber and are dependent on large-diameter trees.
- o Combination mills--mills that produce both select and better grades and construction grades. These mills are partially dependent on large-diameter trees.
- o Dimension mills--firms that produce construction quality lumber. These mills are not dependent on large-diameter trees.

In western Oregon, Washington, and northern California, cutting mills represent 22 percent of the sawmill capacity, combination mills represent 45 percent, and dimension mills 33 percent. Stratified by land ownership, dimension mills are about evenly distributed between landowners and non-landowners. On the other hand, landowning firms hold most--61 percent--of the combination mills.

Despite changing supply conditions, sawmills dependent on large-diameter trees are still a significant component of the westside timber industry. Cutting mills are the most dependent and also tend to rely on national forests for supplies since they generally lack timberlands of their own. Under current policies and practices favoring short-rotation management, these mills will be unable to obtain a sustained supply of material, regardless of whether the remaining old growth is preserved.

Question #5. At some point, no matter how much old growth is allowed to be harvested, the region will run dry of old growth timber. How many mills currently dependent on old growth timber can be reconfigured to smaller diameter trees? Should those mills be re-engineered for smaller trees? Will they be re-engineered (is it economically feasible)?

Answer #5. Potentially, any mill can be retooled to process small-diameter, second-growth timber. Many mills have already converted to second growth and more will do so in the future. The feasibility of retooling will be determined by several factors, such as competition for second-growth timber with exporters, which are influenced by public policy decisions. This is part of an inevitable transition in the regional timber economy.

Even if logging on national forests continues at historic levels for the next 45 years, timber industry employment in western Oregon and Washington is expected to drop by nearly one-half--from 71,500 jobs in 1985 to 36,800 jobs in 2030--primarily due to improved productivity. Preserving all old-growth forests would reduce logging on national forests by about 25 percent, but would cause only a 6 percent further reduction in overall timber harvest and only the loss of an additional 2,300 jobs by the year 2030 when compared to the present projected liquidation of old-growth forests.

Question #6. Do you believe that we have enough scientific data, currently, to make proper, long-term decisions regarding the future management of old growth forests?

Answer #6. We certainly have enough scientific data to know that continued liquidation of old-growth forests would irreversibly diminish the biological diversity of these forests and would threaten the continued existence of certain species that require old-growth habitat. We also have reliable data on the ecological characteristics of old growth and the approximate amount of ecological old growth remaining in several national forests. While additional research and inventory data on old growth are needed, current information is sufficient to support some long-term decisions, such as redirecting federal timber sales away from significant old growth.

Question #7. Are all old growth stands "biologically significant?"

Answer #7. Some stands currently considered by the Forest Service to be old growth may not meet the scientific definitions of old growth or suitable spotted owl habitat. In addition, some stands that do meet the scientific definitions are too small and fragmented to be of much biological significance.

Question #8. Are you satisfied with federal agency land use plans as regards old growth in the northwest? Where and how should those plans be improved?

Answer #8. The forest plans are seriously flawed because they all use somewhat different definitions of old growth, and none of the definitions used is consistent with the scientific definition. Consequently, the plans greatly exaggerate the amount of old growth remaining. Our study of old growth inventories on six national forests in western Oregon and Washington

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found that less than half of the amount of old growth claimed in the forest plans actually exists. The plans also would continue to liquidate old-growth forests, increasing timber sale levels by 10 percent above the average cut over the last decade. The plans should protect ecologically significant stands of old growth, redirect the timber sale program toward other stands, and reduce the allowable sale quantities to a sustainable level.

Question #9. Recent federal studies indicate that second growth federal timberlands in the northwest can be made much more productive with incremental increases in investment for reforestation, thinning and other stand enhancements. Do you generally agree with these studies?

Answer #9. A recent CRS study indicates that investment opportunities may exist on federal lands that were formerly part of the reforestation backlog. The environmental and economic consequences of timber management on these lands need to be carefully evaluated before committing funds. We generally favor policies that encourage investment and management on private timberlands. As the CRS study shows, there is substantial opportunity to increase long-term timber production on private lands in the Pacific Northwest.

Sincerely,

H. Michael Anderson
Forest Planning Specialist

cc: Sen. Wyche Fowler

Testimony of the Northwest Forestry Association

before

The House Subcommittee on Regulation, Business Opportunities and Energy

and

The Senate Agriculture Subcommittee on Forestry and Conservation

Presented by:
Jim Geisinger, President
Northwest Forestry Association

On behalf of the forest products industry in the states of Washington and Oregon, I appreciate the opportunity to present our concerns relative to the management of our public forest lands and the controversy surrounding the management of old growth timber. The controversy has precipitated a timber supply crisis that is threatening to destroy a major segment of the forest products industry, dozens of communities that depend on it, and tens of thousands of northwest workers.

Court injunctions preventing the harvesting of timber alleged to be habitat for the northern spotted owl have essentially shut down the U.S. Forest Service's timber sale program west of the Cascade Mountains and curtailed a third of the Bureau of Land Management's sale program in western Oregon. Together, these injunctions will prevent the sale and harvest of some three billion board feet of timber in FY89. This is enough timber to provide over 50,000 man years of employment and build some 300,000 single family homes. Proposed timber sales not affected by the injunctions must undergo a "consultation" process between the U.S. Fish and Wildlife Service and the other agencies before they can be offered. In effect, the Fish and Wildlife Service has veto power on the sales not involved in the injunctions. The bottom line is that the timber sale programs of the U.S. Forest Service and Bureau of Land Management have been brought to an absolute standstill in western Washington and Oregon. And to no one's surprise, the preservationists are now filing appeals on numerous sales throughout the eastside.

Clearly, there must be some short term relief from the potentially catastrophic effect of these injunctions. It is imperative that timber sale programs be reinstated and protected from obstructive appeals and litigation for a period of time sufficient to develop a long term resolution of the controversy. I do believe that such a long term solution is achievable. But the greatest obstacle that must be overcome is the wide disparity of factual information that exists relative to this controversy. I would like to touch

on three or four myths that are consistently promoted by the preservation community to pursue their objective of eliminating one half of the existing federal timber sale program.

They say that the public forest lands are being overcut; but, under existing management plans in place on the National Forests of Washington and Oregon today, a sustained yield of 5.1 billion feet/year can be maintained in perpetuity. Yet the forest service has only been selling between 4.4 and 4.6 billion feet a year. In addition to that, over 8 billion board feet of timber was returned to the government through the Federal Contract Payment Modification Act. This volume has been resold as part of the normal sale program, not in addition to it. It, in effect, has been counted twice in terms of calculating the allowable cut. If anything, the federal forest lands in this region are being underutilized. And to suggest they are being overcut is absolutely unwarranted.

The preservationists also say that old-growth forests are rapidly vanishing, that they will soon be gone and never replaced. We have a visual representation of data that have been collected by the federal agencies (attached). This is information that has been collected by the federal agencies that have been managing these lands for almost eight decades. The agencies say that on all federal lands in the northwest there are 7.5 million acres of old growth existing today. Four-point-two million acres, or nearly 60 percent of that, is in land-use allocations that prohibit timber harvesting--preserved forever. This is equal to a swath of land two miles wide extending from Portland, Oregon, to New York City. To suggest that old growth is not being protected is not supported by facts.

The preservationists would also like you to believe that the unreserved old growth, the 44 percent that is available for timber production, is going to be liquidated in the next five years. The same chart also shows the Forest Service's estimate of how fast that volume is going to be harvested. It won't be harvested for five decades, after which a healthy, vigorous second-growth forest will be able to supply this region's timber supply needs. To suggest that the old growth will be gone in a few years is ridiculous.

The preservationists say that mill modernization programs will result in massive unemployment, anyway, so we shouldn't harvest the old growth to delay the inevitable. Again, the data seems to refute that. They say that fewer jobs are being supported per unit of output. Yet, since we have emerged from the recession employment has increased, timber harvests have been stable while production has skyrocketed.

We did lose some jobs during the depths of the recession, but those losses weren't because of mill modernization. They were because of mill closures--people closing their mills and leaving the state and leaving people unemployed.

When we emerged from the recession we did come out leaner and meaner. But, the fact is that mill modernization has not focused on eliminating jobs; rather, according to this chart (attached) it has emphasized greater product recovery from the raw material. What the chart shows is that employment has been stable if not increasing since 1983. It shows that timber harvests have been fairly stable during that period of time, but the production of finished products has gone up dramatically. We are making more lumber and plywood from the same amount of raw logs as consumed in the late '70s.

This is conservation of the resource in my mind. But instead of being commended for this accomplishment, we're being ridiculed by skewing the statistics to tell a story that really isn't accurate.

Also, it has been alleged that 80 percent of our ancient forests have been harvested since Lewis and Clark came to view this "ocean of old growth." The fact is the Pacific Northwest ecology is one that has been dictated by fires. There has always been a mosaic of age classes in the Douglas fir region.

I think a classic example is the timber sale called Badger Creek on the Mt. Hood National Forest that was an 18-year-old stand of saplings when Lewis and Clark came down the Columbia River. It was an 18-year-old stand of saplings because it had either been burned by lightning or by the Native Americans. Today, in 1989, that stand of trees is being litigated by environmental groups for its ancient forest values. And it was a stand of saplings when Lewis and Clark got here. Clearly, these stands are renewable.

We haven't harvested 80 percent of the ancient forests as has been alleged by preservationists. I would suspect that we never had 80 percent of our land base in an old-growth condition at any one time.

Finally, the preservation community is now of the opinion that the Wilderness system is inadequate to protect the old growth resources even though their outcry to protect low-elevation, old-growth forests still rings in my ears from the debate of 1984. The fact is that in existing wilderness areas in Washington and Oregon today, on 4 1/2 million acres of federal land, there's 50 billion board feet of standing softwood sawtimber--enough to build 5 million homes. I think that's a pretty significant example of the timber resource being preserved.

We feel strongly that the facts are on our side. We rely on the agencies for our facts. They may not be right all the time, but we think their years of experience are certainly worth more than one or two summers of looking at the resource from an airplane as was done by the Wilderness Society.

I'd like to turn to how these lands are being managed today. Today, through various pieces of legislation and compromises that have occurred, less than 50 percent of the national forest land

base is even considered available for timber production purposes. Less than 40 percent has actually been allocated to standard timber production practices.

A look at just one of the forests in our region may help you appreciate the decisions that we have made in the past.Looking at a map of the Mt. Hood National Forest we see that in 1972 over one million acres of that forest was considered available for timber production. Since then we had two wilderness bills--in '78 and '84--resulting in the preservation of over 175,000 acres. In 1978, a management resource plan was adopted by the Mt. Hood National Forest resulting in the loss of another 200,000 acres Today, we are looking at a draft forest plan with so-called minimum management requirements for wildlife--spotted owls, pine marten and pileated woodpecker. The Forest Service has implemented those minimum requirements today even though the forest plan isn't finished. And what is left today, is 467,000 acres on which timber management can be practiced. This is just 45% of what was available in 1972. And now even these lands are off-limits to timber production due to court injunctions.

There are no timber sales on the Mt. Hood National Forest today--none. We were informed by the timber staff of that forest last week that the volume under contract on that forest will be gone in early September of this year. There will be no more timber sales on the Mt. Hood after that time. Again, this is typical of the situation we are facing on the national forests in the Northwest.

Now, I live in Clackamas County. I've lived there about 8 years. Clackamas County traditionally has received over $6 million in timber sale receipts from the Mt. Hood National Forest alone. They're going to receive $6 million this year because we've had a good harvest year and prices have been high. Under Forest Service projections, if this injunction continues through 1990, Clackamas County will receive $350,000 in 1990.

Now, I've read newspaper accounts, and I've seen quotes to the effect that we're crying "wolf" again and that in our mind everything is a catastrophe. Gentlemen, under any dictionary definition, that is a catastrophe. Now, we could have picked any national forest in Oregon. We didn't pick that one for any particular reason. We could have picked any of them.

We asked Mason, Bruce and Girard to give us estimates as to how much of the federal timberland base has been eliminated since 1975. And on the west side of Oregon, where the old-growth debate seems to be the most heated, the statistics go like this: Mt. Hood National Forest = 45 percent lost; Rogue River = 35 percent lost; Siskiyou = 51 percent lost; Siuslaw = 39 percent lost; Umpqua = 37 percent lost; Willamette = 32 percent lost. The average on the west side is a 40 percent reduction in land that was available timber production in 1975.

Clearly, a considerable amount of land has been taken out of production on our national forests. We often wonder whether any additional amount is going to satisfy the preservationists. Sometimes they appear to have an insatiable appetite. But what is certain is that any further compromises of the land base is going to result in a significant disruption in our timber industry and in the contributions we make to our state.

In the most general terms, the dilemma we are facing is one of uncertainty. There is no permanence or predictability in our future timber supply.

We have made four recommendations to try to resolve this element of uncertainty. First, we have to take the jurisdiction for National Environmental Policy Act enforcement away from the courts. Clearly, they can not deal with NEPA. These lawsuits are not being won on substantive grounds. They are being won on procedural grounds. Can these agencies write environmental impact statements that will stand up to the courts' scrutiny? The 9th Circuit Court of Appeals since 1969 has interpreted and reinterpreted NEPA in so many ways that I think the agencies are simply hamstrung to comply with those standards set by that court. We have to find a more efficient way to judge NEPA compliance.

Secondly, these agencies don't know what the role of timber production is supposed to be on their land. And you can provide that clear direction for them legislatively.

Third, the land base that is allocated for timber production has no statutory protection like the wilderness areas. The preservation community can go to bed at night knowing that the areas that have been set aside have been set aside by Congress and have been protected by Congress. The lands managed for timber have no such protection. They are vulnerable on a daily basis through appeals and lawsuits that continually cause reductions in the amount of land available for timber. The amount of land we would manage for timber deserves protection too.

And, lastly, we would encourage that the agencies not complete their forest planning processes until this issue is resolved. To go ahead and complete them and spend the resources to do it when the certainty about the spotted owl and old growth is up in the air does not seem to be a wise course of action to us.

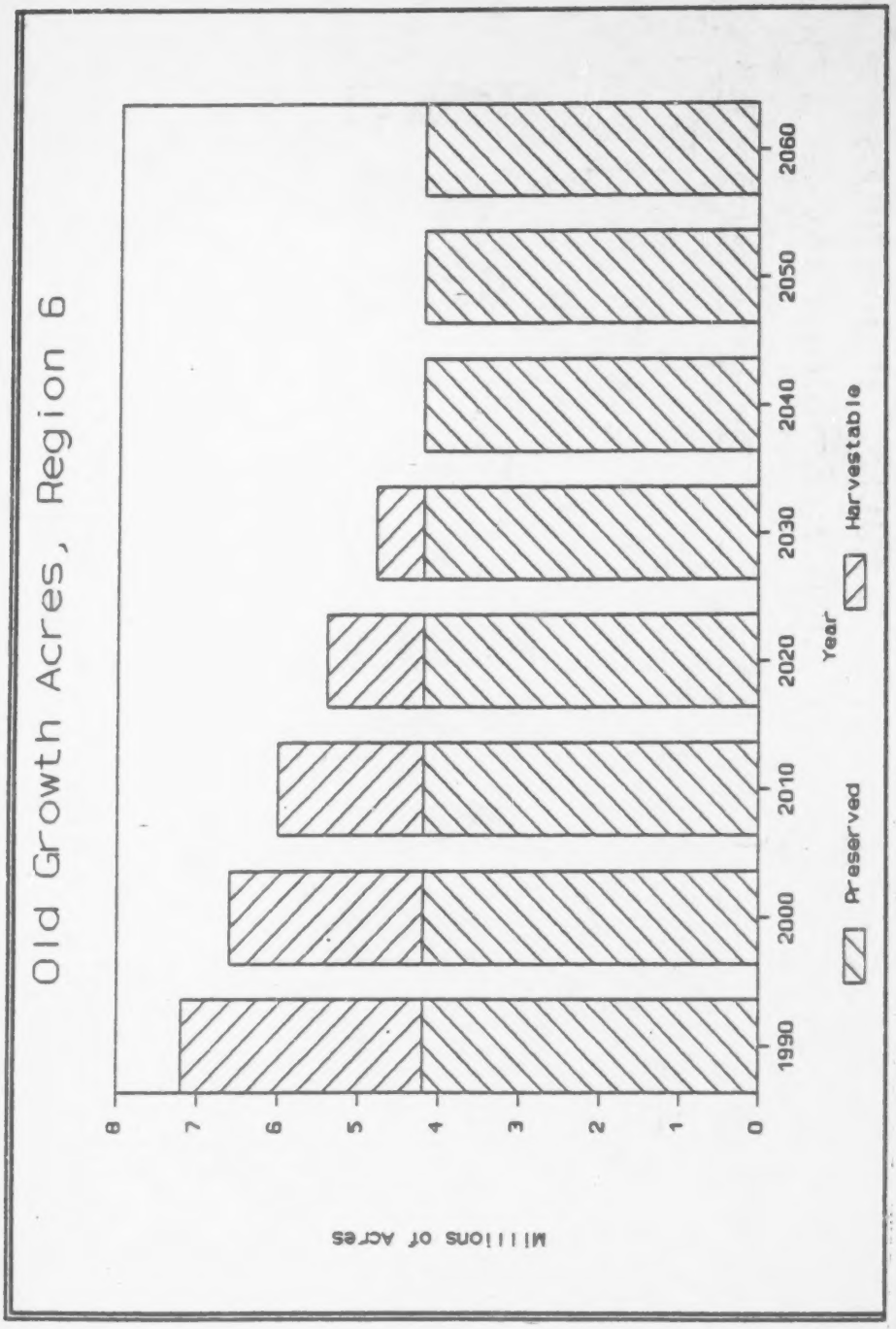
In summary, I'd like to say I have spent 13 years in this industry and have had the opportunity to know a lot of these people very well. They are very honorable and committed to their communities. In 1988, in Oregon alone, they employed over 80,000 people in pulp and paper,
plywood, sawmills, transportation and forestry jobs. They sold in excess of $7 billion worth of products. They represented 44 percent of the economy. But those are just the financial and economic contributions they make to the state.

The contributions they make to our society in the social and human contributions often go unnoticed. I know of an individual who, in the depths of the recession, wrote out a check for $1.2 million to buy a CAT scanner for the hospitals for Roseburg. I know of an individual who built a baseball field in Grants Pass so the American Legion team would have a place to play baseball. I know a family that financed a cultural center at Oregon State University. I know dozens of companies and individuals that buy livestock at the 4-H auctions at county fairs. These are people that are interwoven into the social fabric of their communities and they want to be able to continue making the contribution they've made in the past.

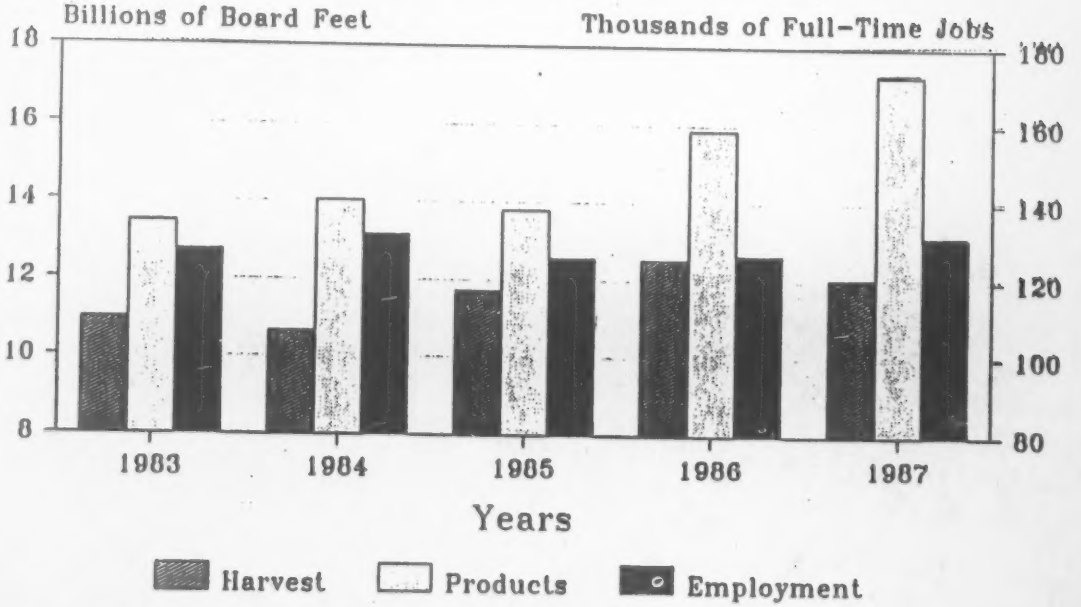
The only way they can do that, however, is if we can get an expedient solution to this problem. We have a short-term problem that needs to be resolved before we can even discuss the long-term problem. And we feel very strongly that the long-term problem will only be solved by changing public policy through Congressional action with participation from all the publics in the Northwest--not just the industry and the preservationists, but everybody that has an interest in how these lands are being managed.

The bottom line is that we cannot have an industry without a supply of timber. We cannot have a supply of timber without a land base dedicated to growing trees. It's that simple. The more land we withdraw, the less timber that's available.

Thank you.


Old Growth Acres, Region 6
Millions of Acres
0
1
2
3
4
5
6
7
8
1990
2000
2010
2020
2030
2040
2050
2060
Year
Preserved
Harvestable

NORTHWEST'S FOREST INDUSTRIES
Production & Employment



Source: Western Wood Products Assn., State of Oregon, Employment Division & Washington State, Employment Security

Forest Lands of the Northwest: Selecting Among Alternative Uses

The 1988 Starker Lectures

College of Forestry
Oregon State University

Foreword

Robert E. Buckman
Professor, Department of Forest Resources
Oregon State University

The theme of the 1988 Starker Lectures, Forest Lands of the Northwest: Selecting Among Alternative Uses, addresses some of the forestry issues of the day in a more timely fashion than we anticipated when the Lectures were planned a year ago. As we go to press, the prospect of reduced harvest levels in old-growth forests, and their employment consequences, dominates the forestry headlines of the region. One way or another, our speakers address various aspects of these issues.

Ward S. Armstrong and Henry R. Richmond, respectively Executive Director of the Oregon Forest Industries Council and of 1000 Friends of Oregon, explore the role of private forest lands in the future of Oregon. Armstrong questions how well land-management planning is working, and suggests that other public initiatives are required. Richmond, concerned about 18,000 small nonindustrial owners, argues their importance to Oregon's economic future and also suggests policy changes.

Thomas Heberlein, Professor and Director of the Center for Resource Policy Analysis at the University of Wisconsin, describes research devoted to placing a value on wildlife. His thesis: If we can develop reliable pricing mechanisms for nonmarket goods, then forest resource management decisions will reflect more consideration for heretofore undervalued resources.

R. Max Petersen, recently retired (1987) Chief of the Forest Service, played a key role in developing and administering legislation concerned with resource planning on the National Forests in the 1970's and 1980's. He reviews the history of resource planning on the National Forests, traces the evolution of the National Forest Management Act of 1976, and then reflects on what he would do differently if he were to start over.

Judge James M. Burns, Federal District Judge in Portland, has presided over a number of court cases involving conflicts between timber and environmental concerns. He believes that too much power is now vested with the Federal courts, and that Congress, as an elective policy body, should provide less-ambiguous guidance. He also suggests that mediation may be a more efficient and equitable way to resolve conflict.

A postscript: Thanks to Gail Wells, who edited and prepared these manuscripts for publication, and to Susan Lewis and Rebecca Chladek, who converted them into this attractive publication.

Dedication

Bond Starker

T.J. (1890-1983) and Bruce Starker (1918-1975), respectively first- and second-generation founders of what is now Starker Forests, Incorporated, began and carry on a tradition in forestry that is as vibrant today as it was during their active years—perhaps even more so. Today Starker Forests manages more than 50,000 acres of Douglas-fir lands in Oregon's Coast Range. These are among the most productive temperate forests in the world.

These lectures are dedicated to the memories of T.J. and Bruce Starker. This year, the fourth of the Starker Lectures, we would like to call attention to three members of the family who carry on the tradition of responsible land stewardship and civic responsibility. They are Betty Starker Cameron, widow of Bruce Starker, and his two sons, Bond and Barte, now the third-generation managers. The Oregon State University College of Forestry is proud to claim T.J., Bruce, Bond, and Barte as graduates.

Today's Starker family members carry on the tradition of T.J. and Bruce. Their first responsibility is to the land and to the firm, but they are always available to advance forestry through demonstration, education, and participation in local and statewide civic activities.

The Starker Lectures are intended to acquaint students, faculty, and citizens of Oregon with a sampling of forestry issues of the day. The lectures describe a series of concerns addressed by speakers at the forefront of their fields. This year is no exception. Oregon State University and the College of Forestry are proud to be a part of these lectures. Our thanks to the Starker family, continuing its tradition of supporting forestry education in Oregon.

Barte Starker

Betty Starker Cameron

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Resource Allocation on Private Lands: How To Protect Oregon's Commercial Forest Land Base

Ward S. Armstrong is Executive Director of the Oregon Forest Industries Council. This lecture was originally delivered Oct. 6, 1988 at Peavy Hall, Oregon State University, Corvallis, Oregon.

"It is self-evident that the potential wood-products yield from the forest will be primarily influenced by land-allocation decisions."

By Ward S. Armstrong

Editor's note: Ward S. Armstrong is the first of two panelists to address the topic of resource allocation on private lands. His comments are followed by those of Henry R. Richmond, Executive Director of 1000 Friends of Oregon, and then by a question-and-answer session.

My thesis today is that the ability of Oregon's commercial forest land to meet this state's future wood fiber needs is in jeopardy because of a diminishing land base available for forestry. Public policy solutions to date have focused on land-use planning as the way of ensuring that forest lands are preserved for forest use. This approach, in my view, has not worked. The solution lies in other public-policy initiatives that encourage full use of the land for forest production, that provide incentives (not always financial) to practicing forestry, and that induce landowners to make their lands as productive as possible.

The economic future of Oregon lies with forestry. This is not to diminish the importance of agriculture, tourism, or even high technology in providing diversity and growth opportunities for Oregon's economy. Nonetheless, Con Schallau said it very well in his 1986 publication, *Economic impacts of interregional competition in the forest products industry during the 1970's*:

> Opportunities for attracting new industries are limited for the timber-dependent communities in nonmetropolitan areas. These communities will rely indefinitely on the forest products industry as the major source of jobs and income. In turn, the region's forest products industry will rely heavily on public forest lands for raw material until the beginning of the next century when the supply from private lands is expected to increase. Therefore, in the immediate future, public forest management policies will have a direct bearing on the economic vitality of the region's timber-dependent communities.

Although Schallau's reference is to public timber and public-timber policies, his thesis is just as applicable to private forestry in the context of the future of timber-dependent communities.

It is self-evident that the potential wood-products yield from the forest will be primarily influenced by land-allocation decisions. These decisions as they pertain to public lands (particularly National Forests) are already in the process of resolution under the mandate of the Forest and Rangeland Renewable Resource Planning Act of 1974, as amended by the National Forest Management Act of 1976.

Although the theme of Henry's

[Richmond's] and my own presentation today relates to private lands, my concern over land-allocation decisions is more clearly demonstrated on National Forest lands in Oregon by comparing the total amount of land in each Forest with that suitable for harvest (Tables 1 and 2). The point is that land-allocation decisions are being made, irrespective of any county comprehensive plan, that restrict wood-fiber yield. The issue of land allocation on private commercial forest land is being dealt with in a different way, which raises some interesting issues for us to explore today.

Oregon embarked on a new public-policy experiment in 1973 when the Oregon Legislature passed SB 100, creating the Land Conservation and Development Commission and requiring that each of Oregon's 36 counties prepare a comprehensive plan and zoning program subject to review and approval by that agency. I played a small role in the passage of SB 100 and remember very well the intense public debate associated with this important legislation. A primary goal of this legislation was the protection of important resource lands (particularly farmland, but also forest land) from conversion to other uses such as urban development.

Today, 15 years after the passage of SB 100, I suggest that the jury is still out as to whether it has adequately accomplished this goal. It is true that every county now has an acknowledged comprehensive plan, one approved by the LCDC as having met the statewide planning goals. One of these is Goal 4, which is designed to protect and conserve forest lands. The problem is, what are these forest lands being protected for? The answer is that SB 100 was designed to protect not only resource lands but environmental values; this was reflected in Goal 5, which required the protection of wildlife habitat, scenic vistas, rivers, and so forth. These values were superimposed over all the other goals, including the forest land goal.

Trying to employ land-use planning to achieve sound resource management, while at the same time imposing statewide requirements to protect environmental values, has resulted in mixed messages to forest landowners. The state is saying, we want you to keep your land in forest production, but we may limit your ability to produce wood fiber because you must protect wildlife habitat, riparian areas, and so forth.

I must add a note of clarification at this point. I fully support the need to protect soil, air, and water resources on the land as part of the natural stewardship responsibility of any landowner. In addition, fish and wildlife resources must be managed properly. What I am critical of is removing land from production based on inadequate scientific data as to what is required to protect these resources.

Table 1. Comparison of total land and suitable timber land in Oregon National Forests: Preferred Alternatives (draft forest plans)

Forest	Total	Suitable	
	(thousands of acres)	(thousands of acres)	(percent)
Eastern Oregon			
Deschutes	1,605	1,009	62.87
Fremont	1,199	705	58.80
Malheur	1,462	950	64.98
Ochoco	957	495	51.72
Umatilla	1,403	637	45.40
Wallowa-Whitman	2,255	832	36.90
Total	**8,881**	**4,628**	**52.11**
Western Oregon			
Mt. Hood	1,060	513	48.40
Rogue River	629	336	53.42
Siskiyou	1,094	529	48.35
Siuslaw	630	383	60.79
Umpqua	985	626	63.55
Willamette	1,676	858	51.19
Winema	1,035	752	72.66
Total	**7,109**	**3,997**	**56.22**
Total Oregon	**15,990**	**8,625**	**53.94**

It is difficult to quantify the impact of Goal 5 protection in terms of lost wood-fiber production. In a paper presented recently at a streamside management conference at the University of Washington, John Garland said:

> Streamside management today focuses on buffer strips. Larger buffers and buffers on more streams are being requested of regulatory agencies. There has been little assessment of the cost impacts. In an abstract sense, the costs associated with a 60-foot buffer on either side of a stream may seem small. However, when the full implications are totaled for a section of land, the costs can be enormous.

Continued on page 4

Table 2. Land suitability for timber mangement in the Willamette National Forest

Category	Unsuited And Unavailable Lands	Total Acres
Total National Forest area		**1,798,737**
Other ownerships	123,330	
Net National Forest area		1,675,407
Water	23,101	
Nonforest lands and uses	122,328	
Roads	22,753	
Forested lands (stocked with 10 percent or more tree cover)		1,507,223
Withdrawn from scheduled harvest		
Wilderness	305,915	
Research natural areas (established)	1,450	
Oregon Cascades Recreation Area	5,695	
H.J. Andrews Experimental Forest	14,505	
Risk of irreversible resource damage	42,705	
Regeneration difficulty (5+ years)	131,561	
Forested lands tentatively suitable		1,005,394
Forested land unavailable due to:		
Meeting multiple-use objectives		
Research natural areas (proposed)	3,029	
Special interest areas	15,251	
Old-growth groves	3,925	
Special wildlife habitats	11,348	
Dispersed recreation areas	52,386	
Developed recreation areas	2,931	
Elk/deer thermal habitat	4,971	
Stipulated mining claims	128	
Meeting minimum management requirements		
Spotted owl habitat	42,634	
Pileated woodpecker habitat	3,144	
Pine marten habitat	6,500	
Threatened and endangered species (bald eagle)	977	
Forested land suited to and available for scheduled timber harvest		858,170
Total unsuited and unavailable	**940,567**	

The Oregon Forest Industries Council conducted an economic analysis in 1986 of the riparian rules then under consideration by the Oregon State Board of Forestry, and found that in western Oregon alone, 225,290 acres would be directly affected, with a lost annual harvest of 128 million board feet.

The current riparian rules require buffer strips along class I streams, streams that are significant fish-bearing streams. Biologists in the state Department of Fish and Wildlife argue that if any fish are present in a stream it should be designated class I. The impact of this decision, particularly on our coastal streams, would add enormously to the acreage in riparian areas and hence to lands essentially removed from forest production.

My point, then, is that land-use planning, designed to preserve and protect Oregon's commercial forest land base, is not working because other public-policy decisions are being made that restrict production on these lands. I have mentioned the riparian lands issue as one example. Other current issues illustrate the same point. HB 3396, passed by the 1987 Oregon Legislature, mandated that the Board of Forestry adopt rules to protect:

- Threatened and endangered fish and wildlife species listed under either state or Federal law.
- Sensitive nesting, roosting, and watering sites for birds.
- Biological sites that are ecologically and scientifically significant.
- Significant wetlands.

The law requires site-specific protection by rules promulgated by the Board of Forestry. The state Fish and Wildlife Commission is currently in the process of considering wildlife species for inclusion on Oregon's list of threatened and endangered species. The Department has analyzed three species to date: the spotted frog, the northern spotted owl, and the marbled murrelet. If any of these species are finally added to the list, the Board of Forestry will be required to adopt forest-practice rules, similar to the riparian rules, for their protection.

Another group of issues relates to water quality. The Oregon Department of Environmental Quality is putting pressure on forest landowners in two ways: requiring compliance with Section 319 of the Federal Clean Water Act regulating non-point-source pollution—which includes forest practices—and regulating total maximum daily load (TMDL) in selected watersheds that are at risk from a water-quality standpoint. In addition, there is growing criticism of forest practices within watersheds because of the impact of these practices on domestic drinking-water systems. The Federal Clean Water Act requires forest landowners to provide treatable water. Purveyors of water for domestic consumption want water coming off forest land to be drinkable.

State fire policy has a significant impact on forest land allocation decisions and, ultimately, productivity. A major current problem is the growing proliferation of residences in the forest. This is resulting in conflicting firefighting strategies. What should be the priority for the firefighters—protection of the forest resource, or protection of the residences? There is even a lack of clarity under Oregon law as to what government entity has jurisdiction over structural fires in areas outside rural fire protection districts. Another aspect of this issue is, who should be responsible for paying ... e protection on forest land? Today, the forest landowner in western Oregon bears the entire cost. Contrast this with California, for example, where the state pays the entire cost of forest-fire protection, and Washington, where the state pays approximately 50 percent.

In summary, Oregon's immense commercial forest land base will remain as this state's most powerful economic asset. Virtually all of these lands will continue to be designated as primary forest lands under Oregon's land-use laws. The real issue, however, is whether we will squander this resource based on well-meaning but poorly thought-through public-policy decisions that will keep these lands from realizing their full potential in wood-fiber production.

Resource Allocation on Private Lands: Selecting Among Alternative Uses

"Those who urge a community interest in land and the landowner's obligations to the permanent community are philosophically more in keeping with the Judeo-Christian tradition."

By Henry R. Richmond

Henry R. Richmond is Executive Director of 1000 Friends of Oregon. This lecture was originally delivered Oct. 6, 1988, at Peavy Hall, Oregon State University, Corvallis, Oregon.

No one has made the point I want to make today better than Barte Starker, member of the Oregon Board of Forestry and Executive Vice President of Starker Forests, Corvallis. In a recent interview (Oregon Department of Forestry 1988), Mr. Starker was asked his view of the key changes between now and the year 2000. He said, "The thing that won't change is the fact that Oregon has some of the most productive timber land in the world, and we have Douglas-fir, the most valuable and structurally unique species in the world."

When asked about his goals as a board member, Starker said, "It is my hope that I can contribute to a stabilization in the land base and give forestry and the state of Oregon a stable future for investments in forestry."

Regarding harvest reductions on federal lands, Starker said:

> Companies that tend to be cut off from the log supply tend to look at small private land as their next best resource for those logs and they go in and cut and run. I see that as a real risk we run if we're unable to stabilize the land base. I hope we are able to do that over the next few years.

I couldn't agree more with those statements. And it's important to recognize, as Starker does, that the issue of stability relates not to industrial land but to nonindustrial private forest land (NIPF)—the ownership class that does not also own processing facilities.

The first point I want to make today is why I agree the Board of Forestry and the Oregon Legislature are justified philosophically in exercising legislative power, granted by the state constitution, to "stabilize the land base". By "stabilize", I mean make long-term allocations of productive NIPF lands for the use of growing timber.

Second, apart from philosophical considerations, I will discuss why it is important for Oregon's economic future that state officials establish policies that reliably allocate western Oregon NIPF land for timber production.

Third, I would like to offer policy choices that state officials could consider to accomplish these timber-production objectives.

The Traditional View: Man as Trustee

What philosophical considerations are relevant to the question of private forest-land allocations? One source of perspective is how our Judeo-Christian heritage has viewed the concept of land generally. What do our traditions say about how to balance individual landowners' desires to use forest land in any way they might wish, at any time, with society's permanent need for wise use of forest land?

From the perspective of the Judeo-Christian heritage, those who insist upon absolute rights of

ownership are asserting the radical, historically anomalous view, whereas those who urge a community interest in land and the landowner's obligations to the permanent community are philosophically more in keeping with the Judeo-Christian tradition.

The Old Testament tradition holds that Yahweh is the owner of the land and that man acts as His trustee. "Land must not be sold in perpetuity for the land belongs to Me; you are only strangers and guests with Me." (Leviticus 25:23)

"The intent was not to guarantee the unfettered individual right to build shopping centers and subdivisions anywhere, at any time. Certainly no one anticipated in 1787 that North America's vast virgin forests would someday be nearly gone."

The Roman Catholic view since Aquinas has also been that man acts as a trustee of the land and has essentially an income interest in it, but not the right to invade or destroy capital. The capital—the productive land itself—belongs to future generations who are the beneficiaries of this trust relationship. The nature of the trust imposes a restraint on the self-interest of the current landowner trustee (Guerry 1964).

The Protestant tradition is similar, with Calvin teaching that mankind shares a trusteeship of land, but that, on forming civil government, man transferred this trustee responsibility to government.

In the 17th century, land transactions in the American colonies reflected this traditional view. Productive land was sometimes private and sometimes held in common. Charters sometimes specified the maximum population of the towns, determined by estimates of productive potential of the land and the permitted range and size of landholdings. The land was essentially zoned to separate land for homes and gardens, grazing, churches, and woodlands.

Towns in Connecticut, for example, usually retained control over all sales of land so that a population with a needed mix of skills could be maintained. As early as 1666 the colonial legislature of Connecticut granted all towns a right of preemption—no private owner could sell land without first offering it to the town. The town's common interest clearly took precedence over the landowner's interest in unfettered use or discretion (Strong 1981).

John Locke is often cited for support of the proposition that government should not regulate property, and it is asserted that the founders accepted John Locke's ideas (*Wall Street Journal* 1987). As a 17th-century philosopher and leading Puritan apologist, John Locke was certainly a strong supporter of the rights of property and the role of Parliament as a check on the power of the King. However, Locke's theory of property is not narrow. It is more a community-based expression of a labor theory of value. In *Of Civil Government*, Locke wrote: "God commanded man to subdue the earth, i.e., improve it for the benefit of life, and therein lay out something upon it that was his own, his labor." (Beatty and Johnson 1966) Locke emphasizes the use of land for the benefit of life generally, not simply for the current owner. Thus, the landowner owns not the land itself but what is brought to the land—namely, the landowner's labor or capital.

It was in this ethos that the just-compensation clause of the Fifth Amendment to the U.S. Constitution was written 2 centuries ago. The concern was over forced quartering of British troops in the homes of American colonists. The intent was not to guarantee the unfettered individual right to build shopping centers and subdivisions anywhere, at any time. Certainly no one anticipated in 1787 that North America's vast virgin forests would someday be nearly gone and that state forestry officials like Barte Starker would be concerned about stabilizing the forest-land base to assure second-growth timber production on the best timber lands on the entire continent.

Attitudes of the 19th Century

These traditional attitudes about man's relationship to land changed after the American Revolution. That change intensified throughout the 19th century, when the United States rushed to the Pacific Ocean—a rush fueled by the policies of the national government and the dreams of settlers.

The United States had a vital interest in extending the population across North America to keep Britain out of the North and Mexico out of the South. The young nation needed citizens to take hold of natural resources, create economic development, generate revenues, and form the basis for military planning and national security.

The Federal government supported these objectives by conveying publicly owned land to railroads, farmers, and other private interests that could be expected to extend American influence across the continent. Unlike the English king, Congress asked only productive use in return for this gift of land—land which the government had purchased only a few decades before with public funds.

In the 19th century, several factors led to a new view of land that emphasized the unrestricted rights of individual owners. These factors included the disappearance of all vestiges of feudalism (with its limitations on use imposed by higher authorities); the plenitude of land; the difficulty of reaching, subduing, and holding it; the absence of restrictions, due to the distance from, or even lack of government; and the pioneers'

great desire for land ownership.

However, in the 20th century, with public resources extensively distributed to private owners and the continent settled, many are reexamining the anomalous ideas about man's relationship to land that surfaced in the 19th century—ideas which, in the 20th century, are often put forth as "traditional". Increasingly, however, the true traditions of our culture are seen in the treatment of land as a trust asset, with man acting as a trustee of that asset and with current and future owners, and society in general, accorded an income interest in the land. Rights to urbanize land are not seen to inhere in the land itself but to be allocated by society, parcel by parcel, as is done in Britain, West Germany, and other free societies (Reilly 1973).

The Other Half of Sustained Yield

What do these principles have to do with NIPF land in western Oregon? A lot, I think. They present the concept of sustained yield less as a management technique and more as a rationale for allocating highly productive forest lands for timber production to protect society's fundamental interest in the creation of wealth and economic welfare.

Since World War II, the concept of sustained yield has usually been associated with overutilization of a forest resource. Earlier today, Ward Armstrong distributed a paper by Harold R. Walt, Chairman of the California Board of Forestry (Walt 1988). Walt's paper discusses sustained yield in connection with the Maxxam buyout of Pacific Lumber. Maxxam now owns 75 percent of California's old-growth redwoods and has indicated an intent to liquidate them in 20 years to retire the debt it incurred to buy Pacific Lumber. California legislators ask, is this sustained-yield forestry?

But in connection with the NIPF resource, the issue of sustained yield relates to the "yield" half of the equation, not to the "sustained" half. It relates to the problem of wasting a major capital asset through *under*utilization, not *over*utilization. Available evidence strongly suggests that western Oregon's NIPF land is not being managed to produce the economic benefits that Oregon needs and should expect. Here are some points to consider:

- Timber harvests from 1975 to 1985 have been only 257 million board feet, despite the finding of the 1976 Beuter Report that with only a "modest" increase in management intensity, harvest could increase almost immediately to 1.0-1.4 billion board feet (Beuter et al. 1976, p. 19).
- The Beuter Report found that only 3 percent of the 2.2 million acres of NIPF land are receiving any kind of management intensity (Beuter et al. 1976, p. 20, Table 5).
- About 36 percent—750,000 acres—of the 2.2 million acres of NIPF land has been allowed to grow back to dense stands of hardwood and brush after old-growth softwoods were logged off decades ago. Conversions to softwoods in the past decade have been negligible (MacLean 1988).
- NIPF stands over 50 years of age typically have only 40 percent of the volume expected in fully stocked stands. NIPF clearcuts yield only about 11,000 board feet per acre, compared to 40,000 board feet per acre on industry lands (MacLean 1988).
- Of those NIPF lands that were successfully reforested (1972-1979) as required by law, only 60 percent were found to be "free to grow" in terms of brush competition, according to a 1987 study by the Oregon Department of Forestry. In contrast, reforested industrial land yielded a 90 percent success rate (Oregon Department of Forestry 1987).

On the theory that NIPF lands are being managed responsibly, the legislature has required counties to extend favorable property-tax treatment to these lands as an incentive: about $1.50 per acre per year.

NIPF land is not only being underutilized. It is also being converted to other uses during a time when both reforestation and land-use laws have been largely in effect. From 1970-1977, 928,000 acres of forest land went out of the NIPF class. Of this, industry bought about 271,000 acres, but the balance—652,000 acres—does not show up in Forest Service inventories of commercial forest land for the period ending 1977 (U.S. Forest Service 1982).

"Oregon is not getting sustained-yield timber management and production from these lands, or anything close to it."

In other words, productive trust capital is not being managed to produce income, and the capital itself is being eroded. Oregon is not getting sustained-yield timber management and production from these lands, or anything close to it. In my view, the people of Oregon have a legitimate expectation that forest-land capital will generate a reasonable stream of income, but state officials have either failed to allocate these lands to productive purpose, or have failed to do so effectively. In either case, the public interest in maintaining these lands in a productive, income-producing posture is not being served.

Which brings me to the second point of my talk: Why it is important economically that state officials allocate western Oregon NIPF land for timber production. I see five reasons:

1. To realize long-term timber production potential from world-class quality land.

As Barte Starker says, these are some of the most productive lands in the world. Of Oregon's total of 22.7 million acres of commercial forest land, the 2.2 million acres of NIPF lands make up one-third of western Oregon's 6.3 million acres of private timber lands. These private lands are by far the state's most productive timber land

Continued on page 9

Table 1. Area of commercial forest land (in thousands of acres) by land and site class for each owner category in western Oregon, 1975.

Site class	National Forest	BLM	State, other public	Forest industry	NIPF	All Owners
Standard land class						
High	333.05	261.19	103.25	1,912.00	862.00	3,471.49
Medium	688.08	912.21	694.05	1,657.00	774.00	4,725.34
Low	1,568.93	634.93	—	510.00	574.00	3,287.86
Very low	275.11	—	—	—	—	275.11
Total	2,865.17	1,808.33	797.30	4,079.00	2,210.00	11,759.80
Special land class						
High	105.67	15.19	—	—	—	120.86
Medium	219.49	61.26	—	—	—	280.75
Low	350.29	45.78	—	—	—	396.07
Very low	89.73	—	—	—	—	89.73
Total	765.18	122.23	—	—	—	887.41
Marginal land class						
High	118.73	—	—	—	—	118.73
Medium	117.69	—	—	—	—	117.69
Low	378.54	—	—	—	—	378.54
Very low	58.81	—	—	—	—	58.81
Total	673.77	—	—	—	—	673.77
Other-objectives land class						
High	36.22	13.74	8.81	—	—	58.77
Medium	37.38	49.99	59.61	—	—	146.98
Low	116.49	35.73	—	—	—	152.22
Very low	39.39	—	—	—	—	39.39
Total	229.48	99.46	68.42	—	—	397.36
All land classes						
High	593.67	290.12	112.02	1,912.00	862.00	3,769.85
Medium	1,062.64	1,023.46	753.66	1,657.00	774.00	5,270.76
Low	2,414.25	716.44	—	510.00	574.00	4,214.69
Very low	463.04	—	—	—	—	463.04
Total	4,533.60	2,030.02	865.72	4,079.00	2,210.00	13,718.34

Source: Beuter et al. 1976. Table 2, p. 7

and Oregon's most important economic asset. There is more high-site acreage (land in site class I and the upper two-thirds of site class II) on the 2.2 million acres of NIPF land in western Oregon than on BLM and Forest Service land put together. While 862,000 acres of NIPF land are categorized as high-site acreage, only 261,000 acres of BLM land and 333,000 acres of Forest Service land are so categorized (Table 1).

Under intensive management, even Oregon's site class IV private forest lands can be more productive than the top one-half of 1 percent of the forest lands in the South, and *10 to 15 times* more productive on the average than Soviet forest lands (Newton 1988).

The OSU Extension Service projects a 13 percent real pre-tax rate of return on a 50-year site class III Douglas-fir timber investment, assuming cost share (OSU Extension Service 1983).

Assuming that hardwood stands on softwood sites are converted to softwood, applying McArdle yield tables to Beuter's 1976 distribution of 2.2 million NIPF acres shows harvests of about 2 billion board feet per year, forever (Table 2). Harvests over the last decade are about one-eighth that amount.

Obviously, not every acre can be managed. A 15-30 percent reduction from yield-table projections should be made to reflect roads, riparian areas, and so forth. On the other hand, small owners can get more production per acre than yield tables suggest industrial owners will get. An industrial forester may be responsible for 10,000 to 20,000 acres. The owner of 100 to 500 acres experiences less mortality because he or she knows every tree. Weak or crowded trees can be removed while some value still can be realized and growing conditions for the balance of the stand improved.

Thus, the potential increase of 1.3 billion board feet or greater in long-term NIPF timber production and harvest is dramatic—given that western Oregon's harvest from *all* ownerships has averaged about 5.5 to 6 billion board feet in the last 15 years. This increased timber growth and harvest means millions of dollars annually in business income, stumpage proceeds, and local tax revenues, as well as thousands of jobs in timber-dependent rural communities. But the true economic significance of this potential increase in NIPF productivity is best understood in the new forces dominating Oregon's economy.

Oregon's entire economic welfare is being at once secured and battered by the process of forest-products mill mechanization. On the one hand, mill mechanization has accomplished a fundamental good. It makes Oregon forest products competitive interregionally. On the other hand, mill mechanization has caused a serious loss of permanent jobs (not seasonal jobs, as in the old days) and a devastating loss in labor income.

"Increasing management and harvest on NIPF lands would give a major boost to employment and to the state's economy generally at a time when everyone agrees timber supply and unemployment problems will otherwise become severe."

The value of an industry to an economy is measured not primarily by output of product or total employment, but by labor income and the new dollars from outside the state that circulate through Oregon's economy. Forestry has traditionally accounted for nearly half of Oregon's "base industry" labor income—43 percent in 1979. However, Oregon experienced a $770 million decline in forest-products labor income—25.6 percent—when the figure dropped from $3.03 billion in 1979 to $2.25 billion in 1986 (Keegan and Polzin 1987).

Oregon and Washington lumber production levels were actually higher in 1986 than in 1979 (12.28 billion board feet versus 11.15 billion board feet) but 32 percent fewer sawmill workers (32,320, down from 50,270) were needed to attain those levels. This labor-income loss due to mechanization is the main reason average per capita income in Oregon slipped from $105 *above* the national average in 1979 (Oregon $11,594; U.S. $11,489) to $1,177 *below* the national average in 1984 (Oregon $11,612; U.S. $12,789).

The best way to reverse or at least slow the reduction in economic benefits that a more competitive forest-products industry can provide Oregon is to increase timber supplies so that investments in additional modern processing facilities can be made.

Fortunately, such investments are feasible because today's Douglas-fir region is in a strong, competitive position. The timber-supply outlook in the South is less favorable than was thought to be the case 10 to 15 years ago. Timber growth of established stands has slowed by 10 to 15 percent; no one is exactly sure why. In addition, no southern state has enacted reforestation laws, and NIPF reforestation rates in the South are a disastrous 1 to 3 acres replanted out of 10 cut. This is important, because 73 percent of the timber base in the South is NIPF. Looking north, British Columbia timber supplies are impaired by higher logging costs as operations extend to marginal, more difficult sites. Hence, given adequate timber supply, Oregon could exploit this advantage and not only restore high-paying manufacturing jobs, but also regain market share lost in the last 20 years.

The point here is that sustaining new processing capacity to accomplish these important employment and market-share goals is possible only by reversing the underutilized posture of NIPF lands. No other owner class of timber land has the potential to

Table 2. Acreage, approximate potential yield, and mean annual increment by Douglas-fir site class for western Oregon nonindustrial private forest lands, 1975.*

Site class (from Beuter Report)	Site class (index) (from corresponding technical bulletin 201)	Acres (percent of NIPF acreage) (from Beuter report)	Age	Annual potential yield[1] (cubic feet)	Annual potential yield[1] (board feet international rule)	Total mean annual increment[2] (board feet international rule)
High	All of site class I, upper 2/3 of site class II (100-year site index ≥ 166)	862,000 (39)	50	167,918	1,124,048	1,258,520
			60	172,400	1,222,603	1,217,719
			70	171,784	1,260,983	1,126,347
Medium	Lower 1/3 of site class II, all of site class III, upper 1/6 of site class IV (site index 120-165)	774,000 (35)	50	101,394	574,308	574,308
			60	109,650	670,800	668,736
			70	111,014	725,349	725,238
Low	Lower 5/6 of site class IV all of site class V, upper 1/2 of site class VI (site index 50-119)	574,000 (26)	50	23,878	109,060	117,861
			60	31,379	152,110	159,189
			70	34,932	181,220	187,889
Totals		2,210,000 (100)	50	293,190	1,807,416	1,950,689
			60	313,429	2,045,513	2,045,644
			70	317,730	2,167,552	2,039,474

* Yield and mean annual increment in thousands of cubic or board feet for trees 7 inches DBH and larger.

[1] Number of acres times yield per acre, divided by age.

[2] Number of acres times M.A.I. per acre.

Source: McArdle, *The yield of Douglas-fir in the Pacific Northwest.*
Calculations: R. Holoch, staff forester, 1000 Friends of Oregon.

significantly increase its long-term cutting rates above current or recent levels.

2. To avoid timber-supply-induced recession from 1990 to 2010.

Wholly apart from the long-term economic arguments for allocating NIPF land to timber production, western Oregon is now facing a 20-year period of harvest reductions on National Forest lands (200-250 million board feet) and industrial lands (650-700 million board feet), totaling about 1 billion board feet annually. Con Schallau calculates that these harvest reductions mean cumulative job losses ranging up to 24,000 jobs over the next 20 years (Figure 1). This estimate is wholly independent of additional job losses due to future mill mechanization.

As noted, the Beuter Report found that with only modest increases in management intensity, NIPF harvest could increase almost immediately from 260 million board feet to about 1.0-1.4 billion board feet. By way of comparison, Gov. Goldschmidt would probably count his National Forest plan review project a stunning success on the west side if he could persuade the Forest Service to cut projected reductions by 100 million board feet.

I hasten to add that I do not mean to imply that NIPF harvests can provide some kind of a neat or total offset of the declining harvest on Federal and industrial lands. Second-growth timber is smaller and of different quality than old-growth Federal timber. In addition, NIPF supplies may not match up with industrial and Federal shortages in terms of location.

Still, increasing management and harvest on NIPF lands would give a major boost to employment and to the state's economy generally at a time when everyone agrees timber supply and unemployment problems will otherwise become severe.

3. To protect timber production on adjacent land.

Getting NIPF land into production is important not only because of the economic benefits the land itself could provide, but also because managed NIPF lands would protect timber production on adjacent Federal and industrial lands.

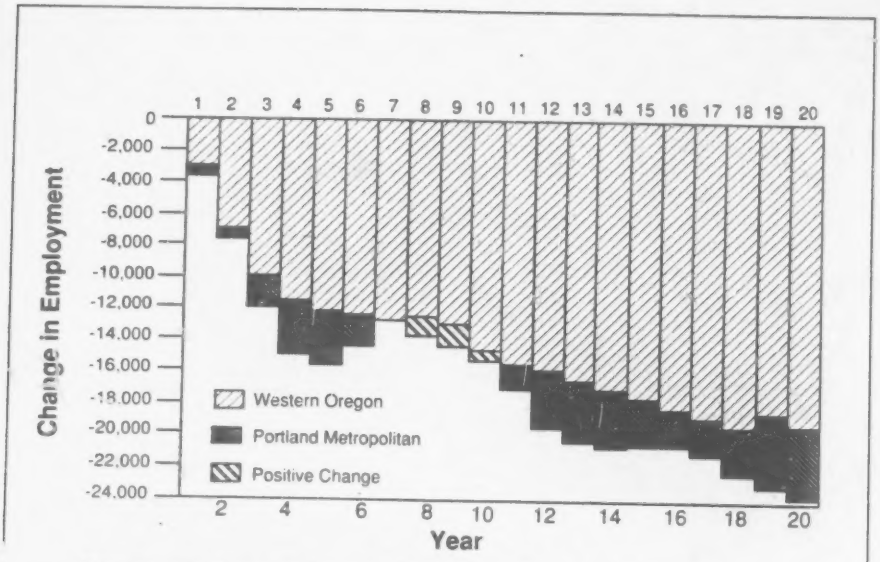

Figure 1.—The impact on Oregon employment resulting from a decrease in timber harvests from National Forests and Industrial forests in Western Oregon. *Source*: Con Schallau, Douglas Olson, and Wilbur Maki. *An investigation of long-term impacts on the economy of Oregon of alternative timber supply forecasts.* Paper presented at Western Regional Science Association, Napa, California, February 27, 1988.

Ward [Armstrong] has submitted the copy of remarks by the chairman of the California Board of Forestry, describing regulations that rural residents have been able to persuade California county governments to impose on logging and forestry operations—no log trucks being driven during commuting hours, for example.

Typically, NIPF lands are located between population centers and industrial and Federal lands. Residents in these areas traditionally either have been or are presently involved in farming or forestry. They are often sympathetic to farming and forestry because they are from families perhaps one generation removed from those activities.

Gradual conversion of these lands to upscale commuters, out-of-state retirees, and other people concerned primarily with amenity will slowly transform NIPF lands from a protective, sympathetic buffer to an increasingly troublesome, hostile source of conflict. This is gradually happening now on northern California's 3.5 million acres of NIPF land. The friendly rural "watchman" who now benefits some Oregon industrial forest landowners will become a hostile litigant, a vandal, and a political opponent locally and statewide. Without policies assuring management of NIPF lands, it is only a matter of a few decades before this destructive trend fastens itself onto Oregon forests.

The financial stakes are big. In the Federal fiscal year ending September 30, 1988, BLM paid $109 million to the 18 O&C counties. This represents half the gross (not half the net as in Forest Service lands) from BLM timber harvests. Counties pay no cost to manage this immensely valuable financial asset. Despite this bounty, county officials are slowly killing the goose that lays the golden egg by approving rural residences and partitions to which BLM timber managers increasingly object. Residents of these houses are often the source of appeals of BLM timber sales. This week, for example, BLM is objecting to a pending application for a new home on forest land in Benton

County. The county staff recommends approval.

Champion International recently had to go to court to overturn an illegal dwelling approved by Douglas County. Publishers Paper and Crown Zellerbach have had to do the same thing in two other western Oregon counties. Unless there is a change in policy, these cross-property-line problems will only get worse.

4. To utilize existing public and private forest-related investments.

Oregon needs adequate timber supplies not simply to avoid wasting high-quality forest land, but to avoid wasting major private and public investments dependent on forest-land utilization.

Oregon has more timber-processing facilities than any five southern states combined. It has the world's largest university-based forest research institution. It has a state highway and road system designed in large part to haul timber to mills and finished lumber products to market. It has major public-policy and governmental apparatus designed to support and regulate forestry. The public and private investments made to create these assets are wasted to the extent that raw materials needed to make these assets productive are not available.

And it is well to remember how dependent non-forestry investments are on forestry. All the bankers, barber shops, bakeries, law firms, schools, utilities, restaurants, insurance companies, taxicabs, and other service industries are viable only to the extent of the basic wealth and the demand for services created by timber and agriculture—land-based industries that alone accounted for 48 percent of all manufacturing employment in Oregon in 1988—and by other manufacturers who sell products out of state.

The same is often true for the value of the principal financial asset of most Oregonians—their home. In small towns, when the mill shuts down or slows down, whether due to slow markets or lack of timber, real-estate values decline for everyone, not just the millworker thrown out of work. For those who must move and sell their homes, a slow local economy creates a fire-sale atmosphere. Home equities are slashed. Relocating employees trade down, not up. And when assessed property values go down, a vicious cycle sets in: tax rates go up and voters reject school levies.

5. To contain the cost of fighting forest fires.

The 1987 forest fire season cost Oregon $180 million in burned timber, fire-suppression costs, and replanting expenses. Rural residences are a source of fire. Rural residences impair effective fire-fighting practices such as backfires. Rural residences divert limited fire equipment and personnel from protection of timber to protection of dwellings, notwithstanding the sources of funds to pay for the men and equipment.

This is a major concern for Oregon's biggest manufacturing employer. This is a major concern for the Oregon Board of Forestry. Without policies carefully restricting future forest dwellings, this problem also will only become worse.

Stabilizing Forest Lands: Some Policy Options

For the five reasons stated above, no issue facing Oregon today is more important than forest-land stabilization, particularly as forest-land ownership is increasingly separated from processing-facility ownership. Financing schools and building prisons are secondary issues by comparison.

In considering how NIPF lands should be allocated, we have to recognize that land-use planning can't solve the problem by itself. But if the forest land base is not to be further destabilized, land-use policies that prevent the kinds of uses which destabilize the forest land base are an essential step.

Oregon should adopt policies to strictly limit the creation of new parcels for houses and non-forest uses, and strictly limit dwellings on existing parcels. The goal should be to ensure that the placement of dwellings does not increase risks of fire or result in the partitioning of forest land into ownership sizes that can't be managed efficiently over many rotations—probably nothing less than 160 acres. Dwellings on forest land should also be limited to those necessary and accessory to forest management, as the Oregon Supreme Court recently ruled (*1000 Friends of Oregon v. Lane County* 1988). Owners of existing parcels should expect to buy additional land totaling 80 acres if they wish to have a dwelling. Leaders of the Oregon Small Woodland Association (OSWA) have done just that in building some fine operations.

The land price structure that can result from a stabilized forest base will help make forestry investments possible. Why does this matter? Because the private investment needed to convert the 750,000 acres of unmanaged NIPF hardwood stands in western Oregon to softwoods runs about $300-$500 per acre, or $225-$375 million. One way to stabilize the land base is to stabilize land prices in terms of forest use. There is probably no more fundamental objective in the land-use program than to contain the speculative price effects that make needed timber investments financially impossible.

A gradually unraveling forest-land base doesn't simply mean specific parcels are taken out of production. The commonly perceived potential for residential development also results in the imposing of rural residential land prices on forest-land markets, making it unlikely, if not impossible, that timber investors (large or small) will eventually buy and manage the land. Agricultural investors are affected in the same way.

Similarly, residential areas would collapse if sellers could "beat the zone" by selling land for commercial uses. The prospective homebuilder seeking to effectuate public policy favoring housing at a particular location could not pay commercial land prices and make a profit selling a house.

The debate before the Land

Conservation and Development Commission (LCDC) is over how much more rural homesite development should be allowed on and adjacent to land that is the state's most important economic asset. Some county officials say the forest-products industry is on its way out, and that retirement income and rural residential lifestyles in forest areas are a growth industry.

Josephine County has 970,000 acres of forest land. And it is true that retirement income had grown so fast that by 1978, at 30 percent of total basic income in the county, retirement income equaled basic income from the forest-products industry. However, from 1963 to 1980, Josephine County's real economic growth was only 4.3 percent, compared to a statewide average of 14.3 percent (Mark 1988). Throughout the 1980's, Josephine County was last among Oregon counties in per-capita income, and there are more people per capita in poverty in Josephine County than anywhere else in Oregon.

The FIR (Forestry Intensified Research) project has come up with management techniques that allow 128,000 acres of land, capable of producing 44-48 cubic feet of timber per acre per year, to go into BLM's allowable-cut base. Yet Josephine County recently persuaded LCDC, over our objections, to allow county officials to write off 60,000 acres of forest land because it fell below 85 cubic feet per acre per year. Since 1972, Oregon's Forest Practices Act has required reforestation of lands capable of above 50 cubic feet per acre per year.

What are the competing values in the debate before LCDC? The state forestry department and the industry point out that management of NIPF lands could (1) help stabilize timber-dependent communities, (2) reduce imminent substantial job losses and further labor-income reductions, and (3) generate major public and private revenue flows.

Arrayed against these values—which affect the entire state's welfare—are the wishes of a relatively few landowners to realize one-time residential values by building houses on all parcels and by carving new parcels out of forest land for more houses. Which value is more important?

The cry is "I should be able to live on my land". However, 70 percent of OSWA members already live on their forest land. The real question is whether the land should be further fragmented and developed

State officials must wade through the fog of anti-LCDC slogans and reject the claim that it is appropriate for the short-term financial gains of a few to come at the expense of the long-term economic welfare of the entire body politic. For Oregon to allow land uses that frustrate the efficient and long-term productivity of its world-class forest lands is tantamount to Texas' capping off its oil wells and West Virginia's putting locked gates on its coal mines. Some forms of economic suicide are just a little more obvious.

"It takes a long time to grow a tree. If forest-management expenditures can be offset only against ultimate harvest income, landowners may stop spending money to grow trees."

In looking at LCDC proposals for private forest-land policy, people in forestry should be concerned. While LCDC is busy, Gov. Goldschmidt is also reviewing preliminary forest-land allocation decisions by National Forest managers. Norm Johnson is asking, for example, why management is not being proposed on 135,000 acres of low site class IV and high site class V lands that the Willamette National Forest staff says can't be regenerated. I am not taking sides on that issue, one way or the other. I don't know the answer. My point is that right across the boundary line separating the Willamette National Forest from Lane County, LCDC is considering a definition of "secondary" forest land that would open up tens of thousands of acres of large-parcel NIPF lands of site class III or better to new 20-acre partitions and new homes on every existing parcel. Existing timber stands will become unharvestable backyard "amenities.". Lane County is on record as wanting to "open up" some 60,000 acres of such land for rural residences—an area the size of Starker Forests. Other counties have the same idea.

Apart from going in the wrong direction on NIPF lands, the State of Oregon could end up speaking with a "forked tongue" with respect to the issue of what forest land is productive and what forest land isn't. That inconsistency could blow up in Oregon's face.

When push comes to shove on Forest Service planning issues, Congressman Sidney Yates from Chicago, or a Ninth Circuit Court judge from San Francisco, is going to say Oregon's claims of a timber shortage sound pretty hollow when the state is proposing to relegate NIPF land to rural residential development, given that NIPF land (1) is more productive than the Federal land and (2) has standing timber in age classes that can help solve the state's timber-supply problem.

Tax Policies that Encourage Investment

As I mentioned, land-use policies can't do the job alone. Oregon has an interest in forestry's being financially feasible. Taxation must also be supportive of timber production. Carrots must accompany sticks.

1000 Friends of Oregon has joined with Oregon, California, Washington, and national woodland owner groups in asking the U.S. District Court in Portland to enjoin the IRS from adopting proposed regulations that would prevent some NIPF landowners from deducting forest-management

expenses against ordinary income. These regulations can be a serious disincentive to making the kinds of forestry investments Barte Starker and others are calling for. We believe the National Environmental Policy Act (NEPA) requires the IRS to prepare an environmental-impact statement before adopting these regulations. It takes a long time to grow a tree. If forest-management expenditures can be offset only against ultimate harvest income, landowners may stop spending money to grow trees. This would increase pressure for change of use, or at the very least, would diminish the quality of management of these lands.

A consulting economist helped us estimate the reduced value of forest-land assets caused by the passive-loss regulations. He came up with $93 per acre (Wilson). This is somewhat theoretical in that we don't really believe that amount will be capitalized. Actual forest-land sale transactions for forest use would have to be checked to see what kind of impact the proposed regulations might have on land values. But if the passive-loss regulations (or for that matter, the loss of capital gains) are going to reduce asset values, that impact should be cranked into the valuation formula used by the Western Oregon Severance Tax and the Western Oregon Small Tract Option Tax that applies to NIPF lands.

More directly, with respect to property tax, it may be desirable to establish a stronger definition of "forest use". Landowners who met the definition would be entitled to forest-use valuation of their land. Their timber would remain exempt from ad valorem taxation.

The strengthened definition could consist, first, of stocking levels higher than 150 trees established per acre after 2 years, which is the current law. Someone who was shooting for 150 healthy trees per acre at year 2 might plant 250. But it is our understanding that most industrial concerns in the northwestern Oregon district are planting something like 375-435 trees per acre. Actual planting at something approximating these levels, and successful establishment after 2 years, should be preconditions of approval of any dwelling on forest land, inasmuch as the rationale for the dwelling is that the owner will engage in thinning and other intensive silviculture.

Consideration should also be given to going beyond the two traditional measures of forest use in forest-land taxation—stand establishment and harvest—to some measure of stand density over the life of the stand. This would permit a simple, objective assessment to be made at any time as to whether a site is being productively occupied. If it were so occupied, forest valuation would be retained. If it were not, as in the case of an overstocked stand, some thinning would have to be done. For understocked stands, if the state had signed off on a forest-management plan and if the understocked condition had developed through no fault of the landowner, the landowner would not lose the forest-valuation assessment.

"If you have equity in your home, you can go downtown and, in a matter of a few hours, borrow a substantial percentage of your equity. By comparison, the immature timber asset is illiquid and relatively worthless from a financial point of view."

For NIPF landowners who meet a strengthened forest-use definition, the state should assume the annual $.50-$1.00 per-acre cost of fire suppression and prevention. This would help reduce carrying costs. California now assumes all such costs. Washington assumes 50 percent of such costs on the east and west sides. Oregon is bringing up the rear with public assumption of 50 percent on the east side and zero percent on the west side.

Similarly, if a way can be devised to overcome the problem of differences between state and Federal tax returns, we would favor Oregon's establishing a state capital-gains rate for timber-harvest income. Woodland owners nationally are making a run at this problem in Congress. But they may not succeed. Still, that doesn't mean Oregon must do nothing on this issue. Assuming NIPF harvests of 300 million board feet, we estimate that state establishment of a capital-gains rate would cost Oregon about $1 million a year (Wilson). This could remove a key obstacle to forestry investments.

For landowners properly managing their land to generate economic benefits in which the public shares, the state should consider creating a loan fund so that NIPF owners could accomplish conversions, buy additional land, or carry out any forest-management practice that would increase productivity. Interest on these loans could be pegged at 2 percent below prime.

Liquefying Immature Timber

Finally, I would like to discuss the question of the unmarketability of immature trees owned by NIPF owners. The typical NIPF owner is about 60 years old and has typically held the land between 5 and 20 years. The payback period on Douglas-fir is a long time—40-50 years—though one occasionally sees ingenious cutting and marketing at age 25.

If you have equity in your home, you can go downtown and, in a matter of a few hours, borrow a substantial percentage of your equity. By comparison, the immature timber asset is illiquid and relatively worthless from a financial point of view. The average NIPF owner can't borrow money to establish or manage an immature stand, and can't borrow against it once it's established. Banks aren't interested. Insurance companies, which are loaning tens

of millions in the Northwest to large timber companies, require $1 million or more in collateral. Transaction cost and creditworthiness reign supreme.

More important, NIPF owners can't sell timber until it's ready to cut. Despite the fact that young, second-growth timber is one of Oregon's most important economic commodities, there is no market for immature trees in western Oregon. NIPF landowners are thus often unable to realize a pro-rata, annualized rate of return on their timber investment.

"Because the state's role is justified on the basis of market failure, it would stand ready to purchase cutting rights only for age classes of timber which industry was not already buying."

This market failure or inefficiency appears to be a major disincentive to timber investment—not because this 2.2 million acres is not good land, but because this world-class land is owned by people who die instead of corporations or government agencies. Often only the heirs of these owners see the bulk of the return.

The State of Oregon should consider creating a market for immature timber—that is, by standing ready to buy future cutting rights from NIPF owners. A market for immature timber would not only encourage timber investments, but availability of cash sales would also reduce the waste caused by premature harvest. The availability of a market for immature timber would also help small owners deal with inheritance taxes.

The IRS values immature trees for purposes of assessing a landowner's estate, even though the landowner would have to sell both his land and his trees to receive anything for the immature timber; and probably would have to sell at a 40 to 60 percent discount from present net worth. However, the landowner could effectively reduce his estate and his inheritance taxes by selling cutting rights to immature timber and gifting the proceeds, at a tax-free rate of $10,000 per year, to his heirs ($20,000 per heir if jointly owned). The landowner would then be able to allow the trees to grow through their maximum growth period. Because a well-managed stand of 85-year-old trees on only 18 acres of high-site ground can be worth $750,000 in today's timber markets, inheritance taxes can be a major problem—both for landowners operating on a responsible silvicultural basis, and for the State of Oregon, which has a basic interest in keeping trees from being prematurely cut and forest land from being partitioned to pay taxes.

How could such a new state program be paid for at a time when the state is struggling to build prisons, pave roads, improve education, and avoid cutting welfare payments? On a test basis, the state could acquire future cutting rights on NIPF lands and trade them with a National Forest in the same market area for immediate cutting rights on the National Forest. The state would sell the rights on the Federal land to processors in the same market area. With the proceeds of these sales, the state could meet its payment obligations to the nonindustrial landowners, thus closing the loop.

The Forest Service may be able to do this under authority of the Sustained Yield Unit Act of 1944, by dealing with private landowners through the State of Oregon which, in effect, acts as the agent of the private landowners. The Forest Service would be acting in recognition of its responsibility to timber-dependent communities and to the values of community stability reflected in Forest Service statutes and regulations.

Gov. Goldschmidt says, "If you propose a new program, propose how you pay for it." The state's cost is purely administrative. There is no big hit on the general fund. People who get the benefit pay the bill.

Such an experiment by the State of Oregon would have several consequences. First, it would enable the Department of Forestry to test the idea of creating a market for immature NIPF timber on a broader basis; that is, broader than trading cutting rights with National Forests. To the extent that the concept is shown to be workable with the Forest Service, the state could consider assuming the burden of financing a process of purchasing immature NIPF timber, holding it for resale, and making annual payments to NIPF owners. Because the state's role is justified on the basis of market failure, it would stand ready to purchase cutting rights only for age classes of timber which industry was not already buying.

"Oregon is *the* timber state in America. We can't look to other states for answers on these issues. We have to figure it out for ourselves, unafraid of innovation."

A second potential result could be a modest allowable cut effect (ACE) on some National Forests, accomplished without deviating from sustained-yield principles. By contractually "adding", for example, 50,000 acres to the Willamette National Forest (out of the 270,000 acres of NIPF land in Lane County), or "adding" 50,000 acres to the Umpqua National Forest (of 420,000 acres of NIPF land in Douglas County), the National Forest has, in effect, expanded its productive commercial forest-land base by 50,000 acres. Land base plus volume and age class of standing timber are important factors

in determining allowable sale quantity (ASQ).

Of course, any ASQ, regardless of "additions" to the land base, is going to be subject to constraints such as spotted owl restrictions, dispersion of clearcuts, and so forth, as well as the matching up of age classes needed on individual National Forests with those on lands held by the Oregon Department of Forestry on contract from NIPF owners.

1000 Friends is now seeking to develop data about specific samples of NIPF land in Lane and Douglas counties and to put that data into appropriate form so that it can be run through the FORPLAN model for the Willamette or Umpqua National Forests. This would allow a precise measure of the allowable cut effect of such a procedure, as well as a 40-year cash-flow analysis of it. Through discussions with the Department of Forestry and others, we also seek to explore how such a proposal could operate administratively and financially. For example, what value should the state ask the Forest Service to place on future cutting rights of immature Douglas-fir for purposes of trading for immediate cutting rights of mature timber on the National Forest?

Bold Action

If Oregon is to realize appropriate use of these critically important NIPF lands—that is, their use in a manner which assures income to future generations—the state can't simply be a bystander. It must recognize that sustained yield means a productive, income-generating use as well as a "non-declining even flow" of timber. It must create a policy framework in which the potential for perpetual productive use of this resource is never physically compromised, and by which supportive tax and financial policies make it fair, feasible, and attractive for the owner to grow and harvest trees on these lands.

Oregon is *the* timber state in America. We can't look to other states for answers on these issues. We have to figure it out for ourselves, unafraid of innovation.

As in other areas of public policy, the outcome of this debate *will* happen. The underutilization that characterizes NIPF lands today is the result of choices made in the past. Inaction by state officials remains a choice—a choice in favor of continued economic waste in the face of economic need. By the same token, bold action can capitalize on Oregon's most strategically positioned economic asset, and can pave the way for Oregon's transition from a century of old-growth liquidation to a perpetual forestry of growing and harvesting trees on the finest forest land in Creation.

Thank you.

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